Management Board Report on the Operations of Polski Koncern Naftowy ORLEN Spółka Akcyjna for year ended 31 December 2010

POLSKI KONCERN NAFTOWY ORLEN SPÓŁKA AKCYJNA
MANAGEMENT BOARD REPORT ON THE OPERATIONS OF PKN ORLEN S.A.
(Translation of a document originally issued in Polish)

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I. ORGANISATION OF PKN ORLEN S.A.

1.1 Description of PKN ORLEN S.A. organisation

The Parent Company of the Polski Koncern Naftowy ORLEN S.A. Capital Group ("PKN ORLEN", the "Company" the "Capital Group") is Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN", the "Company", the "Parent Company", the "Issuer"), with its registered office in Płock, at 7 Chemików St.

The Group comprises, apart from PKN ORLEN, entities located mainly in Poland, Germany, Czech Republic and Lithuania.

The Company's core business includes :
- processing of crude oil and manufacturing of oil derivative products and semi finished products (refinery and petrochemical),
- production of basic chemicals, fertilizers and nitrogen compositions, plastics and synthetic rubber,
- purchase, processing and trade of used lubricant oils and other chemical waste,
- manufacturing, transportation and trade of heating energy and electricity,
- domestic and foreign trade on own account, on a commission and as a consignee, including in particular: the trade in crude oil, oil derivatives and other fuel, sale of industrial and consumer goods,
- research and development activity, project work, production and construction activities on own account and as a consignee, in the areas of processing, storage, packaging and trade in solid, liquid and gaseous oil fuels, derivative chemical products as well as transportation: road, rail, water and by pipeline,
- storage of crude oil and liquid fuels, creation and management of oil stock in accordance with appropriate regulations,
- services connected to the principal activity, in particular, sea and land reloading, enrichment of gas and oil, including ethylization, dyeing and blending of components,
- overhaul of appliances used in principal activities, especially refinery and petrochemical installations, oil storage appliances, petrol stations and means of transportation,
- operations of petrol stations, bars, restaurants and hotels as well as catering activities,
- activities of finance holdings, brokerage activities and other financial activities,
- crude oil and natural gas exploration and extraction,
- services to the entire society, medical services, fire protection, education.

As at 31 December 2010 PKN ORLEN held shares and stock directly or indirectly in:
- 79 subsidiaries,
- 5 jointly controlled entities,
- 11 associated companies.

As compared to the end of 2009 the number of subsidiaries, jointly controlled entities, as well as associated companies of the ORLEN Group has decreased by 6.

The Capital Group's policy is implemented through strengthening its position in the companies operating in the area of the core business and controlling such business by segment management, restructurings and divestments of the assets not closely related to the core business of the PKN ORLEN.

The most significant changes in respect of capital and organisation relations in 2010 till the moment of preparation of hereby financial statement should include the following events:
- completion of the liquidation procedure and removal of ORLEN Powiernik Sp. z o.o. from the National Court Register (NCR) on 7 January 2010,
- increase, on 15 February 2010, in the share capital of ORLEN Upstream Sp. z o.o. by PLN 2,450 thousand by issuing of 4,900 new shares of the nominal value of PLN 500,
- completion of the liquidation procedure and removal of Chemiepetrol GmbH from NCR, on 15 March 2010,
- foundation on 27 October 2010 of ORLEN Capital AB and acquisition by PKN ORLEN of 500,000 shares of EUR 0.11 each. Share capital amounts to EUR 55 thousand and PKN ORLEN's participation in the same is 100%,
- purchase by PKN ORLEN, on 30 December 2010, of a stake of shares representing 9.19% of the share capital in Rafineria Trzebinia S.A. As a result of entering into the above transaction, PKN ORLEN's participation in the share capital of Rafineria Trzebinia S.A. increased to 86.35%,
- purchase by PKN ORLEN, on 30 December 2010, of a stake of shares representing 5.56% of the share capital in Anwil S.A. As a result of entering into the above transaction, PKN ORLEN's participation in the share capital of Anwil S.A. increased to 90.35%.

Increase of the capital involved in above companies of the Capital Group is connected with strengthening the management structure.

1.2 Changes in organisation and management in PKN ORLEN in 2010

In 2010, the PKN ORLEN Management Board Members were constantly supervising the following areas of the business activity of PKN ORLEN:

- President of the Management Board, concurrently fulfilling the function of the Chief Executive Officer, was responsible for the following areas of the business activity of PKN ORLEN: Human Resources, Strategy and Project Management, Procurement, Counsel to PKN ORLEN, Corporate Communication, Internal Audit, Crude Trading and Upstream as well as the Representative responsible for Confidential Information Protection,
- Vice-President of the Management Board, Chief Financial Officer was responsible for the following areas: Planning and reporting, Business controlling, Supply chain management, Finance management, Taxes, Investor relations, Capital investments and divestments, IT,
- Member of the Management Board, Sales, was responsible for the following areas: Wholesale in refinery products, Sale of oils, Retail sale, Marketing, Sales controlling and Logistics,
- Member of the Management Board, Refinery, was responsible for the following areas: Refinery production, Oil production, Energy production, Efficiency of refinery production and Refinery controlling,
- Member of the Management Board, Petrochemistry, was responsible for the following areas: Petrochemical production, Sale of petrochemical products, Chemistry, Health and Safety, Environmental Protection Office, Efficiency of petrochemical production, Petrochemistry controlling, Development and implementation of property investments.

The above described responsibilities of the PKN ORLEN Management Board Members ware stable during 2010 and the Organisation Rules and Regulations, in force in 2010, were introduced by the Disposition of the General Manager of 23 February 2010 and applied unamended by the end of 2010.

From the beginning of 2010, activities in the upstream area have been delegated to ORLEN Upstream Sp. z o.o., whereas the Crude Oil Upstream Office in PKN ORLEN has been liquidated.

As part of restructuring activities in 2010, within the area of the Management Board Member responsible for the Sales, the previous Retail regions of the East, West and South were replaced with the following Regional Sales Workgroups: pomorski, wielkopolski, dolnośląski, śląsko-małopolski, podlaski, lubelski and mazowiecki.
The restructuring also covered the area of the Executive Director responsible for the Property Investment Implementation, where the previous Fuel Station Retail Network Investment Regions of East, West and South were replaced by Fuel Station Investment Regions of the North and South.
Implementation of the above changes in the retail sales aims at reducing the costs of the segment business and at increasing the network management efficiency.

Organisational changes relating to the responsibilities of the Management Board Member, Petrochemistry, included also separating the Environmental Protection Office from the previous area of Environment protection, health and safety at work. The Office is responsible for the management of the environment-related issues within the ORLEN Group, including the exchange of best practices and costs optimisation, waste management and reclamation policy as well as monitoring the way and extent of impact of production, distribution and commercial facilities on the environment.

II. OPERATION AND FINANCE SITUATION

2.1 Key risk factors

2.1.1 Market risk

PKN ORLEN manages the market risks in a co-ordinated manner through the units which are mostly exposed to such risks, i.e. PKN ORLEN, Basell ORLEN Polyolefins Sp. z o.o. (BOP), ORLEN Asfalt Sp. z o.o., Anwil S.A., Unipetrol Capital Group (Unipetrol Group) and ORLEN Lietuva Capital Group (ORLEN Lietuva Group).

PKN ORLEN manages the market risk on the basis of its adopted policy, which determines the rules for measuring individual exposures, parameters and time for securing the given risk and the security instruments. The market risk is managed by the designated organisational units supervised by the Financial Risk Committee, Management Board and Supervisory Board of PKN ORLEN.
Management and Supervisory Boards of particular companies are responsible for the risk management and compliance with the adopted policy relating to the above in the companies of the ORLEN Group. PKN ORLEN, which received relevant powers of attorney under respective agreements, is responsible for the implementation of hedging transactions on behalf of individual companies of the ORLEN Group covered by the coherent hedging policy. Effectiveness and performance of hedging transactions are monitored by individual companies of the ORLEN Group and presented to the PKN ORLEN Financial Risk Committee and the Management Board of PKN ORLEN.

PKN ORLEN is exposed to market risks relating to the exchange rates, interest rates, goods and CO_2 emission rights prices.

The process of market risk management aims at mitigating the undesirable effects of changes of market and financial risk factors on the cash flows and performance in short- and medium-term perspective

– **risk of changes in the exchange rates**

PKN ORLEN is exposed to the currency risk arising out of the current accounts receivable and current accounts payable, cash, capital expenditures and loan liabilities as well as own bonds denominated in foreign currencies and future planned cash flows relating to sale and purchase of goods and refinery and petrochemical products. The currency risk exposure is hedged with such instruments as forwards or swaps.

For the USD/PLN exchange is secured (hedged) naturally to a certain extent, since the revenues from the sales of products, whose value is dependent on the USD exchange rate, are balanced with the costs of crude oil purchases in the same currency.

In the case of EUR/PLN exchange rate, in this currency the revenues from the sale of petrochemical products are denominated. For this group the natural hedging applies to a limited extent (i.e., interest on the loans denominated in EUR, part of investment purchases).

– **risk of changes in the interest rates**

The risk of cash flow fluctuations due to changes of interest rates results from the extended loans, bank deposits held and fluctuating interest rate loans. PKN ORLEN holds derivative transactions which hedge the cash flow risk due to the interest rate payments relating to the issuance of bonds in PLN and the cash flows relating to the interest rate payments as regards the external financing in EUR and USD, using the IRS (interest rate swaps), for which the cash flow hedge accounting is applied.

– **risk relating to the procurement of raw materials**

The risk relating to the procurement of raw materials is due to the necessity of securing continuous and punctual supply of raw materials needed for the production. In PKN ORLEN the procurement is performed mainly via a pipeline system, by land and sea transport. The strategy adopted by PKN ORLEN is aimed at preventing any disturbances in the raw materials procurement, mainly due to the diversification of sources and adaptation of the production installation to process various types of raw materials.

– **risk of changes in the prices of crude oil, refinery and petrochemical products**

The operating result reported by PKN ORLEN is exposed to the risk of changes in the prices of crude oil and refinery and petrochemical products. Changes in margin quotations (crack) on refinery and petrochemical products directly influence the level of revenues and operating result. The fluctuations of crude oil quotations are directly reflected in

the level of sales revenues, while the production cost is calculated using average cost for inventory valuation, which may result in disproportional effects at cost side. Sensitivity of reported result to price fluctuations is mainly due to the requirement to keep mandatory reserves.
PKN ORLEN carries out the transactions hedging the risk of changes in prices of crude oil to which it applies the hedging accounting.

– **risk of changes in legislation**

The risk arising out of changes in legislation concerns mainly the implementation of the National Indicative Target (NIT) and the quantity limit relating to the rights to CO_2 emission.

In accordance with the Council of Ministers' Ordinance of 2007, as part of the adjustment to the community law regulation involving the achievement of ambitious goals as regards the share of energy from the renewable sources, improvement of power efficiency and the reduction in greenhouse gases emission – the so called 3x20 package, since 2008 the obligation to satisfy the National Indicative Target (NIT) has been imposed on fuel producers. NIT determines the minimum share of biocomponents and other renewable fuels calculated at the heating value in the general quantity of liquid fuels and liquid biofuels used up in transport during the calendar year. The value of the index is updated annually and in 2010 it amounted to 5.75% in comparison to 4.60% in 2009 and 3.45% in 2008. The increasing value of NIT and no regulations on the sale of E10 fuels (gasoline with 10% of bioethanol) and B7 fuels (diesel oil with 7% of bioethanol) compels PKN ORLEN to enter B100 fuel into trading. Moreover, in the half of 2011 it is planned to lift the tax reliefs relating to the use of biocomponents and biofuels, which may result in the increase in the costs of economic activity and difficulties in the implementation of NIT goals in the future.

Under the applicable legal regulations arising out of the Kyoto Protocol to the United Nations Framework Convention on Climate Change adopted by the European Union, companies of PKN ORLEN were allocated with the CO_2 emission rights.
Annually, the Capital Group verifies the number of such rights and determines the way of systematic balancing of the discovered deficits/surpluses as intra-group or futures and spot transactions. In 2010, PKN ORLEN sold its surpluses of CO_2 emission rights and entered into forward transactions for the purchase of such rights.

– **risk of changes in the trends in fuels consumption and import**

Change in the trends in the fuels consumption and import may exert a material influence on the volume of sales and the level of prices of products of the PKN ORLEN companies that are possible to be achieved and, therefore, on the PKN ORLEN's financial standing.

2.1.2 Credit risk

PKN ORLEN is exposed to the credit risk related mainly to trade accounts receivable. The Company, when conducting commercial activity sells products and services to business entities with deferred payment date, therefore the risk may emerge of non-payment for the products and services delivered.

To mitigate the credit risk and to keep working capital at the lowest feasible level, PKN ORLEN applies the procedure of trade credit limit allocated to its business partners and determines the way in which it is secured.
A business partner with the deferred payment term is assessed individually in terms of the credit risk. Trade receivables of the business partners are monitored on a regular basis by the financial departments. Should the overdue accounts receivable arise, the sale is suspended and the debt collection procedures are launched, in accordance with the applicable procedures. Additionally, part of the accounts receivable is insured under the organised programmes of trade credit insurance.
The credit risk associated with assets resulting from the positive valuation of derivative instruments is assessed by the PKN ORLEN as low due to the fact that all transactions are concluded with the banks having high credit rating. One of the significant factors for the bank choice is rating on the level not lower than A.

2.1.3 Liquidity risk

As at 31 December 2010, the current assets to trade accounts payable ratio (current liquidity ratio) amounted to 1.3. As at 31 December 2010 PKN ORLEN held more than EUR 1 billion of free funds under available credit loans.

In order to ensure an additional source of funds needed to secure its financial liquidity, the Company signed the Bond Issue Programme with the debt limit of up to PLN 2 billion. As at 31 December 2010, the ORLEN Group used PLN 1,155,289 thousand of that limit.

In order to optimize financial costs, the Company applies systems of cash concentration – as at 31 December 2010 there are 20 entities of the Group in PLN cash pooling system and 3 entities of the Group in international cash pooling system.

2.2 Information about core products, merchandise and services of PKN ORLEN

The core products of PKN ORLEN include:
- refinery and retail segments products: gasolines, diesel oils, light heating oil, Jet A-1 fuel, liquid gas, heavy heating oil,
- petrochemical segment products: ethylene, propylene, benzene, butadiene, acetone, phenol, glycols, toluene, orthoxylene, paraxylene.

The sales volume of PKN ORLEN (without volume of sold crude oil) in 2010 amounted to 14,923 thousand tonnes and was lower by (-) 0.2% as compared to the prior year.

Assortment structure of PKN ORLEN volume sales of products and merchandise (in thousands of tonnes)

Sales	2010	share %	2009 (restored data)[1]	share %	change	change %
1	2	3	4	5	6=2-4	7=(2-4)/4
Refinery Segment						
Gasoline	1 554	16,9%	1 792	19,1%	-238	-13,3%
Diesel oil	3 974	43,3%	4 054	43,1%	-80	-2,0%
Light heating oil	792	8,6%	807	8,6%	-15	-1,9%
A-1 Jet fuel	394	4,3%	293	3,1%	101	34,5%
Heavy heating oil	943	10,3%	922	9,8%	21	2,3%
LPG	242	2,6%	209	2,2%	33	15,8%
Other[2]	1 278	14,0%	1 319	14,1%	-41	-3,1%
Total products	**9 177**	**100,0%**	**9 396**	**100,0%**	**-219**	**-2,3%**
Retail Segment						
	1 295	29,7%	1 342	32,7%	-47	-3,5%
Gasoline	2 689	61,7%	2 470	60,1%	219	8,9%
LPG	376	8,6%	295	7,2%	81	27,5%
Total products	**4 360**	**100,0%**	**4 107**	**100,0%**	**253**	**6,2%**
Segment (Refinery + Retail)	**13 537**	**-**	**13 503**	**-**	**34**	**0,3%**
Petrochemical Segment						
Ethylene	448	32,3%	461	31,9%	-13	-2,8%
Propylene	334	24,1%	342	23,7%	-8	-2,3%
Toluene	85	6,1%	91	6,3%	-6	-6,6%
Benzene	71	5,1%	81	5,6%	-10	-12,3%
Ortoxylene	6	0,4%	20	1,4%	-14	-70,0%
Acetone	23	1,7%	21	1,5%	2	9,5%
Butadiene	63	4,5%	57	3,9%	6	10,5%
Glycol	64	4,6%	68	4,7%	-4	-5,9%
Ethylene Oxide	18	1,3%	18	1,2%	0	0,0%
Phenol	34	2,5%	34	2,4%	0	0,0%
Other[3]	240	17,4%	251	17,4%	-11	-4,4%
Total products	**1 386**	**100,0%**	**1 444**	**100,0%**	**-58**	**-4,0%**
PKN ORLEN total	**14 923**	**-**	**14 947**	**-**	**-24**	**-0,2%**

1) in the volume figures concerning 2009 the sales volume was reclassified between the refinery and retail segment of 696 thousand tonnes. The reclassifications is equivalent to the sales volume made through the DoFo sales channel previously presented in the refinery segment
2) including i.e.: pyrolitic gasoline, P fraction
3) including i.e.: sulphur, paraxylene, antifreeze liquids

Decrease in volume sales of refinery segment by (-) 2,3% (y/y) to the level of 9,177 thousand tonnes, it is mainly the result of lower volume sales of gasoline by (-) 13.3% (y/y), diesel oil by (-) 2.0% (y/y) and light heating oil by (-) 1.9% (y/y) partly compensated by higher volume sales of Jet A-1 and LPG by 34,5% (y/y) and 15,8% (y/y). Total wholesale and retail sales of gasoline decreased by (-) 9.1% (y/y), mainly as a result of the declining consumption of such fuel on the market. On the other hand total volume sales of diesel oil increased by 2.1% (y/y) as a result of positive consumption trends.

Retail sales of fuels on PKN ORLEN's fuel stations achieved historical level and was by 6.2% higher in comparison to previous year, mainly due to the higher sales under FLOTA programme addressed to institutional clients.
The consistent implementation of the retail network development strategy allowed for the increase of the PKN ORLEN's share in the Polish retail market by 1.0 percentage point (y/y) up to the level of 32.2%.
The dynamic of non fuel sales increase amounted to 8.2% (y/y). PKN ORLEN's fleet programmes were in 2010 distinguished many times in 2010, as the best offer for business clients on the market.

As at 31 December 2010 the retail network of PKN ORLEN in Poland increased by 48 facilities (y/y) and comprised 1,714 stations, out of which here were 1,333 own stations and 381 franchise stations. As at 31 December 2010, 981 stations in the PKN ORLEN's network were operating under the ORLEN brand and 457 stations were operating in the BLISKA economic segment. The remaining 276 stations were operating under the Petrochemia and CPN brands with ORLEN logo. In 2010, 81 patron stations were delivered for operation in the wholesale area.

In the petrochemical segment the volume sales of olefins decreased by (-) 2.6% mainly as a result of shutdown of Olefin installation. Lower volume sales of other petrochemical products, i.e. benzene by (-) 12.3% (y/y), toluene (-) 6.6 % (y/y) and glycols by (-) 5.9% (y/y), was partly compensated by increase of sales of butadiene and acetone respectively by 10.5% (y/y) and 9.5% (y/y).

The detailed information on the revenues from sales broken down by geographical segments was provided in note 4.2 and 4.3 to the Unconsolidated Financial Statement for 2010.

2.3 Information about changes in the sales markets and supply sources of production materials

The information on leading customers, which revenues exceeded level of 10% total revenues from sales were provided in note 4.4 to Unconsolidated Financial Statement for 2010.

PKN ORLEN supplies crude oil to four refineries from the ORLEN Group: one in Poland (Płock), two in the Czech Republic (Litvinov, Kralupy) and one in Lithuania (Mazeikiu). In 2010 the crude oil supplies to all destinations were performed as scheduled.

As a result of a process of term contracting for the supplies of the raw material for the years 2010-2012, in the end of 2009 PKN ORLEN executed two contracts, effective as of the beginning of 2010, with the companies Mercuria Energy Trading S.A. and Souz Petrolium S.A. Each of the contracts were concluded for the term of 3 years with an option of annual renegotiation of price, and if there is no agreement in this respect, termination of the contract. These are term contracts, which ensures safety and continuity of raw material supply to the refinery and contain supply guarantee clauses backed up with financial guarantees.

Under the contracts signed for the year 2010, the main raw material suppliers to the refinery in Płock were the companies operating in the Russian market and traders operating in the international crude oil market.

In 2010, the share held by Mercuria Energy Trading S.A. and by Souz Petrolium S.A. in the crude oil supplies exceeded by 10% of the revenues of the ORLEN Group for each of them and amounted in total to 72% of the overall supplies.

2.4 Description of main economic and financial values and assessment of factors and uncommon events materially affecting the generated financial result

2.4.1 Fuels consumption and import

On the basis of the data of Agencja Rynku Energii S.A. ("ARE") (Energy Market Agency), total fuels consumption in Poland (i.e. gasolines, diesel oil and light heating oil) amounted in 2010 to 16,320 thousand tonnes and was by 0.3% higher in comparison to the previous year. Gasolines consumption in Poland was lower by (-) 4.9% than in 2009 and amounted to 4,100 thousand tonnes. Diesel oil consumption in 2010 amounted to 11,045 thousand tonnes and was by 2.1% higher in comparison to 2009, what represents the growing trends in consumption of above fuel for the last few years. There is the progressive change in the Polish car fleet involving increasing the number of vehicles with diesel engines. The light heating oil consumption ("LHO") in Poland increased by 3.2% in comparison to 2009 and amounted to 1,175 thousand tonnes.

According to ARE estimations, total import of fuels to Poland decreased by 181 thousand tonnes (approximately 7%) in comparison to 2009. Gasolines import decreased by nearly 16% and reached the level of 415 thousand tonnes, which represented approximately 17% of the import of all fuels. The highest observed import of gasoline was from Germany (approximately 49%) and Slovakia (approximately 46%). It is estimated that in 2010 about 2,048 thousand tonnes of diesel oil was imported to Poland, i.e. nearly by (-) 5% less than in 2009. Import of that fuel represented approximately 83% of the total volume of fuels imported to Poland. The highest amount of diesel oil came from Germany (44%), Lithuania (33%) and Slovakia (12%).

2.4.2 Revenues

In 2010 PKN ORLEN generated revenues from sales amounted to PLN 62,215,581 thousand, i.e. by PLN 14,734,303 thousand more than that generated in 2009.
The increase in the sales revenues in 2010 is a result of higher level of the refinery segment's sales by 34% (y/y), as a result of growing sales volume and quotations for the main products. As compared to 2009, quotations of gasolines increased by 26% (y/y), diesel oil by 28% (y/y), light heating oil by 29% (y/y) and Jet A-1 by 28% (y/y). Higher volume sales and the fuel prices caused the increase in retail segment revenues by 22% (y/y). On the other hand the increase of petrochemical segment revenues by 34 % (y/y) results mainly from higher quotation of petrochemical products.

2.4.3 Operating result

The profit from operations reported by PKN ORLEN for 2010 was determined with the use of average cost for inventory valuation, amounted to PLN 2,756,827 thousand as compared to PLN 790,306 thousand in prior year.

The result from operations was mainly affected by:
- higher by PLN 1,445,638 thousand (y/y) profit generated by the refinery segment, as a result of positive impact of macroeconomic factors including mainly Ural/Brent differential, refinery margin, greater influence of growing crude oil prices on the inventory valuation by PLN 522,596 thousand (y/y),
- lower by (-) PLN 13,278 thousand the retail segment's result form operations is mainly a result of decreased unit fuel margin compensated by higher sales volume and non-fuel product margin,
- higher by PLN 555,069 thousand (y/y) result of the petrochemical segment derived mainly from higher margins on petrochemical products and was partly limited by the appreciation of the average exchange rate of PLN against EUR and the lower volume sales,
- Corporate Functions costs higher by (-) PLN 20,908 thousand (y/y) result mainly from the revaluation of the provisions for employee benefits and higher costs of development projects.

Other operating net revenues and costs in 2010 achieved the level of (-) PLN 4,477 thousand as compared to PLN (-) 127,310 thousand in 2009.
The result on sale of non–current non-financial net assets amounted to PLN 45,505 thousand, mainly from sale of fuel stations and other assets, obtained revenues from won dispute with Agrofert amounted to PLN 44,422 were covered by negative effects of one-off items containing revaluation of provision for economic risks and other total amounted to PLN (-) 111,182 thousand.

In 2010, EBITDA ratio (operating profit plus depreciation and amortisation) amounted to PLN 3,627,344 thousand as compared to PLN 1,760,571 thousand in 2009.

2.4.4 Financial costs and net result

The balance of the financial operations in 2010 was positive and amounted to PLN 69,497 thousand, mainly as a result of dividends received amounted to PLN 384,731 thousand and net valuation of financial instruments amounted to PLN 60,954 thousand, with negative impact of interest costs of PLN (-) 246,348 thousand and foreign differences from translation amounted to (-) PLN 135,002 thousand.

Considering tax charges, the net profit of PKN ORLEN for 2010 amounted to PLN 2,357,127 thousand and was higher by PLN 721,242 thousand as compared to prior year.

2.4.5 Statement on financial position

As at 31 December 2010 the balance sheet totaled to PLN 39,894,058 thousand which was by PLN 2,877,707 thousand more than as at 31 December 2009.

The increase of fixed assets value by PLN 1,657,175 thousand (by 7.2%) as compared to the end of 2009 results mainly from the increased value of property, plant and equipment and intangible assets by PLN 1,554,220 thousand (by 13.9%) due to incurred investment expenses by PLN 2,256,368 thousand and involving depreciation and amortisation by PLN 870,517 thousand.

In 2010, the increase of current assets by PLN 1,220,532 thousand (by 8.7%) mainly results from greater level of trade and other receivables by PLN 1,231,813 thousand due to growing revenues from sales resulting from increase of volume and crude oil prices on international stock exchanges and transactions involving the sale of mandatory reserves of crude oil of the value of approximately PLN 1.71 billion, which were conducted in 2010.

As at 31 December 2010 the equity amounted to PLN 19,539,049 thousand and increased by PLN 2,406,151 thousand (by 14.0%) as compared to the equity recorded on 31 December 2009, mainly due to the reached net profit for 12 months of 2010 amounted to PLN 2,357,127 thousand.

As at 31 December 2010 the net indebtedness amounted to PLN 7,706,489 thousand and was lower by PLN (-) 848,134 thousand as compared to the previous year. The above resulted from the repayment of loans amounted to PLN (-) 1,491,144 thousand and the decrease of cash balance totaled PLN 568,343 thousand.

2.4.6 Statement of cash flows

In 2010, the net cash flows from operating activities amounted to PLN 3,895,427 thousand and were by PLN 1,089,013 thousand (y/y) higher than that recorded in 2009. The high level of generated cash in 2010 is mainly due to the reached net profit for 2010 amounted to PLN 2,357,127 thousand, optimisation of net working capital amounted to PLN 678,038 thousand and depreciation and amortisation amounted to 870,517 thousand.

The cash flows from investing activities amounted to PLN (-) 2,568,977 thousand and were mainly relating to net expenses for purchase of property, plant and equipment and intangible assets amounted to PLN (-) 2,465,239 thousand in range of realized investment programmes.

The net cash flows from financing activities amounted to PLN (-) 1,881,372 thousand mainly due to repayment of net indebtedness amounting to PLN (-) 1,547,333 thousand and repaid interest amounted to PLN (-) 402,739 thousand.

As a result, the cash balance as at 31 December amounted to 1,396,060 thousand.

2.4.7 Summary

Definite improvement of the results achieved in the year 2010 was the effect of the consequently implemented activities being the catalyst for the increase of the PKN ORLEN value.

In the variable market environment, the priority was to ensure the financial security of the Company, which was achieved by development and effective implementation of the initiatives related to the working capital optimization. One of them was the solution pioneering in the Polish market, under which in the 1st and 4th quarter of 2010 part of the mandatory reserves of PKN ORLEN was sold for the aggregate amount of approximately PLN 1.7 billion. As a result, the net indebtedness at 31 December 2010 amounted to PLN 7.7 billion, while the net financial leverage lowered during the year by 12.1 percentage points down to 44.3%.

As part of the investment activities, the key development projects concerning the start-up of HON VII installation and the construction works as regards PX/PTA complex were continued in 2010. Obtaining the building permit for the steam and gas block in Włocławek was the first step in the development of the energy sector of the Company and the Capital Group.
The material decrease in the indebtedness level and the sustainable operating results improved credibility of PKN ORLEN in the financial market and contributed to change of the PKN ORLEN rating perspective from negative to stable by Fitch and Moody's agencies.

The positive opinion of PKN ORLEN activities in 2010 reflected in awarded prizes relating to management and investor relations areas.

2.5 Key events in the period from 1 January 2010 up to date of this report

- **Sales agreement and the agreement for gathering and keeping of mandatory crude oil reserves**

On 29 March 2010, PKN ORLEN concluded with LAMBOURN Sp. z o.o., with its registered office in Warsaw, a crude oil sales agreement ("Sales agreement") and the agreement for gathering and keeping the mandatory crude oil reserves ("Reserves gathering and keeping agreement"). Under the Sales agreement, PKN ORLEN sold to LAMBOURN Sp. z o.o. the crude oil of the value of approximately USD 280 million (i.e. approximately PLN 800 million). The price of the raw material was determined on the basis of market quotations. Under the Reserves gathering and keeping agreement, LAMBOURN Sp. z o.o. will provide the service of keeping of the mandatory crude oil reserves on the account of PKN ORLEN, whereas PKN ORLEN will guarantee that the reserves are stored in the present location. The Reserves gathering and keeping agreement was concluded for the fixed term of one year and can be extended. After expiration of the above agreement, PKN may purchase crude oil to fulfill statutory obligations related to keeping mandatory reserves.

– **Arbitration proceedings against Yukos International UK B.V.**

On 15 July 2009, PKN ORLEN filed with the Arbitration Court at the International Chamber of Commerce a request for instituting arbitration proceedings, by which it initiated such proceedings against Yukos International in relation to the transaction of the acquisition of AB Mazeikiu Nafta shares. On 3 May 2010 PKN ORLEN filed with the Arbitration Court at the International Chamber of Commerce a statement of claim specifying its claims against Yukos International UK B.V., with its registered office in The Netherlands, under which it requests Yukos International to pay the amount of USD 250 million together with interest and cost of the proceedings. The arbitration proceedings are held in London, in front of the Arbitration Tribunal composed of three arbitrators in accordance with the Rules of Arbitration Proceedings of the International Chamber of Commerce.

– **Judgement on the dominant position of PKN ORLEN in the monoethylene glycol market**

On 6 October 2010, the District Court in Warsaw (Competition and Consumers Protection Court) announced the judgement on the appeal against the decision of the President of the Competition and Consumers Protection Office of 29 December 2006. The case concerns the alleged abuse by PKN ORLEN of its dominant position in the monoethylene glycol market by counteracting the emergence of conditions necessary for the competition to arise or be developed due to PKN ORLEN's determining the price of the "Petrygo" non-freezing liquid for coolers produced by PKN ORLEN in the way inadequate to the growth of monoethylene glycol prices.
In the announced judgement, the Competition and Consumers Protection Court took into account the appeal of PKN ORLEN and repealed the decision of the President of the Competition and Consumers Protection Office appealed against. Thus, the Court dismissed the penalty of PLN 14 million imposed on PKN ORLEN by the President of the Competition and Consumers Protection Office. Furthermore, the Competition and Consumers Protection Court agreed with the arguments presented by PKN ORLEN that the decision issued by the President of the CCPO contained material legal defects, therefore it must be removed from legal trading and that PKN ORLEN had not abused its dominant position in the monoethylene glycol market.

– **Decision of the Arbitration Tribunal in Prague on the action brought by Agrofert Holding a.s.**

On 3 November 2010, PKN ORLEN received a notice of the Arbitration Tribunal in Prague at the Chamber of Commerce of the Czech Republic and the Chamber of Agriculture of the Czech Republic on the decision having been issued in respect of the fourth case pending before the court, which case was brought against PKN ORLEN by Agrofert Holding a.s., with its registered office in Prague.
The above action brought by Agrofert Holding a.s. concerned the payment of damages of CZK 19,464,473,000 for the damage that arose due to unfair competition, illegal injury to the reputation of Agrofert Holding a.s. and failure to perform the contractual obligations under the agreements signed in the years 2003-2004 between PKN ORLEN and Agrofert Holding a.s.
In this decision, the Tribunal fully dismissed the claim of Agrofert Holding a.s. in the above case and ordered the same to cover the costs of proceedings incurred by PKN ORLEN. The decision ended the last proceedings pending until now between Agrofert Holding a.s. and PKN ORLEN.

– **Cooperation agreement on prospecting for and exploration and extraction of hydrocarbons in the Ukraine**

On 6 December 2010, PKN ORLEN and the Ukrainian Ministry of Environmental Protection signed an agreement on cooperation in exploration and production of hydrocarbons in the territory of Ukraine. In accordance with the agreement, PKN ORLEN will be able either to work under new licences or to jointly develop some hydrocarbon reserves already appraised by its Ukrainian partners. The cooperation between PKN ORLEN and the Ukraine presumes the implementation of joint projects in exploration and production of crude oil and gas, related to both conventional deposits and so called shale gas. Before the decision on any equity involvement is made, the analyses will be conducted and experts' reports will be prepared by the parties to the agreement.

– **Sales agreement and agreement for gathering and keeping of the mandatory crude oil reserves**

On 23 December 2010, PKN ORLEN concluded with Maury Sp. z o.o., with its registered office in Warsaw, the crude oil sales agreement (the "Sales agreement") and the agreement for gathering and keeping the mandatory crude oil reserves ("Reserve gathering and keeping agreement"). Under the Sales agreement, PKN ORLEN sold to Maury Sp. z o.o. the crude oil of the value of approximately USD 300 million (i.e. approximately PLN 910 million, at the average exchange rate of USD/PLN of the National Bank of Poland as at 23 December 2010). The price of the raw material was determined on the basis of market quotations. Under the Reserve gathering and keeping agreement, Maury Sp. z o.o. will provide the service of keeping of the mandatory crude oil reserves on the account of PKN ORLEN, whereas

PKN ORLEN will guarantee that the reserves are stored in the present location. The Reserve gathering and keeping agreement was executed for the fixed term of one year and can be extended. After expiration of the above agreement, PKN may purchase crude oil to fulfill statutory obligations related to keeping mandatory reserves.

– **Acquisition of the stake of shares in Rafineria Trzebinia S.A. and Anwil S.A.**

On 30 December 2010, PKN ORLEN signed with the Ministry of State Treasury two agreements for the acquisition of stakes of shares representing 9.19% of the share capital in Rafineria Trzebinia S.A. and 5.56% of the share capital of Anwil S.A. As a result of entering into the above transactions, the share of PKN ORLEN in the share capitals of Rafineria Trzebinia S.A. and Anwil S.A. increased up to 86.35% and 90.35% respectively.

2.6 Indebtedness structure and financial resources management

Specification (PLN thousands)	2010	2009	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Bank loans	8 089 346	9 586 665	-1 497 319	-15,6%
Borrowings	312	-	312	-
Debt securities	1 012 891	932 361	80 530	8,6%
By maturity:				
Long-term	7 937 850	9 971 765	-2 033 915	-20,4%
Short-term	1 164 699	547 261	617 438	112,8%
Financial indebtedness	**9 102 549**	**10 519 026**	**-1 416 477**	**-13,5%**
Cash	**1 396 060**	**1 964 403**	**-568 343**	**-28,9%**
Net financial debt	**7 706 489**	**8 554 623**	**-848 134**	**-9,9%**

The drop in net indebtedness at 31 December 2010 affected the improvement of financial security and the level of financial ratios assessed by the banks crediting the activities of PKN ORLEN. This was confirmed by the full ability to perform payment obligations and other agreement with banks and financial institutions.

In 2010, PKN ORLEN used loans and borrowings in both polish zloty and foreign currencies which mainly bear interest at fluctuating rate. For the purpose of liquidity management there is a the cash pool fund concentration system maintained in PLN and other currencies (in a foreign bank for PKN ORLEN and the foreign companies of the Group: ORLEN Finance Capital Group, ORLEN Lietuva and ORLEN Deutschland), operating at the ORLEN Group. The cash-pool available in the banks rendering ongoing services to PKN ORLEN and its subsidiaries enables the optimization of financial costs and effective management of current financial liquidity of PKN ORLEN.

In its day-to-day operations, PKN ORLEN uses comprehensive services of highly credible banks, with a considerable equity and strong market position, which have gained extensive expertise in finance management on the Polish and foreign markets. This renders it possible to reduce banking costs, and ensure high quality of provided services.

2.7 Loan agreements and borrowings, sureties and guarantees, contingent liabilities.

2.7.1 Loan agreements

The main loans used in 2010 at PKN ORLEN, including:

– multicurrency loan facility of EUR 1 billion extended by the consortium of Polish and international banks in December 2005. The loan period is 5 years from the signing of a loan facility agreement with two extension options, each of one year (in December 2006 and 2007, respectively, PKN ORLEN took advantage of the extension option and moved the maturity date of the loan of EUR 889 million to December 2012). The loan may be used in four currencies, i.e. EUR, USD, PLN and CZK. Funds from the loan may be allocated to finance current operations of PKN ORLEN,

– revolving loan facility of EUR 800 million extended by the consortium of eight banks in November 2006. The loan period is 5 years with two extension options, each of one year. PKN ORLEN took advantage of the extension option in November 2007 and 2008 respectively. The final maturity date of the loan (with reduced limits in 2011 and 2012) will fall in November 2013,

- syndicated loan facility of EUR 300 million extended by the consortium of six banks in January 2008 to provide funds for on-going business. The loan period is 3 years as of the signing of the loan facility agreement, with two extension options, each of one year. In 2010 PKN ORLEN took advantage of the extension option and moved the final maturity date of the loan amounted to EUR 250 million to January 2012. The loan may be used in three currencies, i.e. in EUR, USD and PLN. The funds disbursed may be devoted to finance on-going business,

- multicurrency revolving loan of EUR 325 million extended by the consortium of seven banks in August 2008. PKN ORLEN may allocate the disbursed funds to general corporate purposes and to working capital, including providing funds to the companies of the ORLEN Group. The loan period is 3 years with two extension options, each one for one year. In 2010 PKN ORLEN took advantage of the extension option and moved the final maturity date of the loan amounted to EUR 275 million to August 2012. The funds under loan may be disbursed in three currencies i.e. EUR, USD and PLN,

- two bilateral loan agreements designated for financing of the investments, which were signed in 2007 with the European Investment Bank (EIB) in the aggregate amount of EUR 510 million. The amount of EUR 210 million was extended by EIB for the investments concerning the expansion of fuel stations network and the environmental protection. The available credit currencies are EUR, USD, GBP and PLN with a nine years' payment term and the possibility of a three years' grace period. The amount of EUR 300 million was granted by EIB to finance part of the costs of construction of the installation for paraxylene and terephthalic acid production (PX/PTA complex). In 2010, PKN ORLEN signed an annex to the agreement reducing the available loan to EUR 200 million. The available credit currencies are EUR, USD, GBP and PLN with a twelve years' payment term and the possibility of a four years' grace period or a one-off repayment within 8 years from the drawing date,

- agreements concerning nine revolving loan agreements securing the on-going financial liquidity.

For further details regarding the debt structure see note 18 to the Unconsolidated Financial Statements for 2010

2.7.2 Loans granted

In 2010, PKN ORLEN was a party to the following borrowing agreements:

- long-term loan agreement executed with Basell ORLEN Polylefins in December 2009 for the amount of EUR 10 million. Interest on loans granted are calculated at fluctuating interest rates determined at arm's length. Under the loan agreement the loan will be repaid in one instalment on 31 December 2013,

- long-term loan agreement executed in the second half of 2005 with ORLEN Transport Kraków sp. z o.o. for the amount of PLN 2,700 thousand. In the second half of 2007 ORLEN Transport Kraków sp. z o.o was declared bankrupt and ceased to pay its liabilities under the loan agreement. As at 31 December 2010 the due amount equalled PLN 122 thousand

The interest on the granted loans accrues at the fluctuating interest rate determined at arm's length.

2.7.3 Securities and guarantees

As at 31 December 2010 the value of guarantees and sureties issued by PKN ORLEN amounted to PLN 1,526,134 thousand. This amount covers:

- PLN 1,377,887 thousand for the liabilities of the subsidiaries, out of which the amount of PLN 1,081,162 thousand of Orlen Finance AB and PLN 277,221 thousand covers the liabilities of ORLEN Deutschland GmbH,
- PLN 90,602 thousand for the liabilities towards third parties issued in the course of on-going business activity,
- PLN 57,645 thousand for excise duty

2.7.4 Contingent liabilities

As at 31 December 2010, the total value of contingent liabilities increased as compared to 31 December 2009, by PLN 14,297 thousand in respect of the liabilities relating to court litigation and amounted as at 31 December 2010 to PLN 38,450 thousand.

For further details concerning contingent liabilities see note 33 to the Unconsolidated Financial Statements for 2010.

2.8 Issue of securities

Under a bond issue program agreement, PKN ORLEN issues unsecured bearer's bonds. The offer is addressed to institutional investors and not to the public. The banks chose a group of entities from amongst the investors they know to which they address a bond purchase proposal. The proposal may not be addressed to more than 99 entities. Under the programme, the issue of both non-interest bearing (zero-coupon) and interest bearing (coupon) bonds is admissible. The non-interest bearing bonds are issued with a discount for a period from 7 days to 1 year. On interest bearing bonds interest is accrued at a fixed or variable interest rate. These bonds are issued for a period of 1 to 7 years. The issues may be effected in four currencies: PLN, EUR, USD and CZK. Therefore, the bonds may be addressed to foreign companies belonging to the ORLEN Group.

In 2010, PKN ORLEN, as part of the bond issue programme, issued exclusively short-term bonds in two currencies: PLN and EUR. The issues were addressed to the members of the ORLEN Group.

The total value of the issued securities, as at 31 December 2010 amounted to PLN 1,012,891 thousand as compared to PLN 411,462 thousand in 2009.

2.9 Financial instruments

Financial instruments were described in detail in note 30 to the Unconsolidated Financial Statements for 2010.

2.10 Factoring

As at 31 December 2010, PKN ORLEN is a party to three agreements for the provision of factoring services without recourse, involving the sale and discounting of short-term liabilities (trade accounts receivable) due to PKN ORLEN from four of its largest clients, prior to their maturity and the take-over of the risk of insolvent debtor. Two out of the said agreements are the continuation of the agreements executed in December 2009.

2.11 Assessement of the feasibility of investment projects

The investment process implemented in 2010 in the ORLEN Group was primarily directed at the completion of key development investments of refinery and petrochemical segments: HON VII installation and Paraxylene (PX) and Terephthalic Acid (PTA) complex in PKN ORLEN.

Capital expenditure made in 2010 amounted to PLN 2,256,368 thousand as compared to PLN 2,628,061 thousand in 2009.

The segment structure of the capital expenditure made is reflected in the specification presented below (in PLN thousand):

Segment	2010	2009	change	change %
1	2	3	4=(2-3)	5=(2-3)/3
Refinery segment	591 012	501 061	89 951	18,0%
Retail segment	193 112	195 911	-2 799	-1,4%
Petrochemical segment	1 412 933	1 859 580	-446 647	-24,0%
Corporate Functions	59 311	71 509	-12 198	-17,1%
Total	**2 256 368**	**2 628 061**	**-371 693**	**-14,1%**

High operating results achieved in 2010 and a range of optimisation initiatives strengthened the position of PKN ORLEN in respect of safety of the activity financing. In 2010, PKN ORLEN generated cash of PLN 3.9 billion from the operating activities, which, together with the available free credit lines, allowed to implement the planned investment programme to the full extent.
Decisions concerning the launch of investment projects are preceded by the comprehensive analysis in terms of the required rate of return and by the assessment of the present standing of PKN ORLEN Group and its market environment in order to minimise the risk of no possibility to implement the planned investment tasks.

2.12 Explanations of differences between the financial results showed In the annual report and the previously published forecast results for a given year.

There are no differences between the results presented in the Unconsolidated Financial Statements for 2010 and previously published results in the Consolidated Quarterly Report for 4th quarter of 2010.

III. FORCASTED DEVELOPMENT OF PKN ORLEN

In line with the development strategy adopted in 2008, creating the value of PKN ORLEN is effected through the focussing on the activities aimed at:

- strengthening the efficiency and further development of the main segments of the activity as regards the operations and finance,
- exploring the new attractive areas through the development of the upstream segment and building of the energy segment,
- divesting of non – core assets, mainly in the areas of telecommunications and chemistry.

All the undertaken activities aim at increasing the market value of PKN ORLEN, strengthening the position in the domestic markets as well as product and geographical expansion. Effective strengthening activities focused on ensuring operational efficiency, assets integration and segment management constitute the solid base for further development of the Company in the area of its core business, extending the value chain and taking advantage of new areas of activity as the leverage of dynamic increase.

Further development and strengthening of the efficiency of key operating segments was possible due to the conducted investment programme. In the refinery segment in 2010 the new HON VII installation was technologically started up, which rendered it possible to increase the production capacity in respect of diesel oils with low sulphur content. As regards the logistics, the key activities included the construction of the Ostrów Wielkopolski-Wrocław product pipeline and the implementation of cavern strategy in order to secure the storage needs for crude oil and petroleum products both, own and commercial. As regards wholesale the regional price system was introduced and the organisation responsible for the sale to the so-called sea market was still in construction.

In the petrochemical segment, the construction of Paraxylene (PX) and Terephthalic Acid (PTA) installation, which at the end of 2010 were at the technological start-up stage, was being finalised.

In the retail segment, PKN ORLEN once again achieved the record results due to the increase in the fuels volume sales, expanding its share in Polish market and the consistent implementation of non-fuel sales strategy.

The main goal of the ORLEN Group's strategy is to creating an integrated, multi-segment fuel and energy entity with the diversified structure of assets (Multi-Utility model). The main development investments are focused on the new segments of its business activity for and exploration and extraction of hydrocarbons and the electricity production. The above activities will be undertaken both independently and in co-operation with the domestic and foreign trade partners.
Consistently, while preserving acceptable level of risk the hydrocarbons exploration and extraction segment is being built. The company ORLEN Upstream Sp. z o.o. set up for that purpose and dealing with extraction, exploration and extraction activities evaluates upstream projects in terms of both, their technical potential and purposefulness of the acquisitions projected. The constant monitoring of the upstream projects worldwide allows of a full consciousness in respect of the emerging acquisition options. The created and still developed data base for such projects enables their correct selection and matching to the possibilities and needs of PKN ORLEN.
In 2010, four exploration and extraction activities projects were conducted: in the Latvian zone of the Baltic Sea shelf in co-operation with Kuwait Energy Company, near Sieraków with Polskie Górnictwo Naftowe i Gazownictwo (PGNiG) and two other implemented independently in the Lublin region. Project in the Lublin region is particularly promising as regards the prospective of exploration and management of unconventional natural gas reserves. Due to the concessions held, the ORLEN Group may become an important natural gas producer in Poland. In order to prospect for and then to manage the deposit, PKN ORLEN intends to commence co-operation with an experienced business partner, possessing the necessary know-how and the capital. At present stage also some upstream projects are being analysed in the regions characterised with a relatively stable geopolitical situation.
As part of projects concerning the energy sector development, in 2010 the works were commenced on the implementation of project involving the construction of a steam and gas power plant – Combined Cycle Gas Turbine (CCGT) in Włocławek, equipped with the steam and gas condensation block of the nominal capacity of net 420-490 MWe. The selection of the supplier as regards the power plant construction may be completed in the 3rd quarter of 2011, whereas the start-up of the first block would be possible in 2014. The power plant construction is a long-range project, taking into consideration primarily the estimates assuming that the demand for the electricity is to increase in the years to come. Additionally, in March 2010 the Ecology and Energy Investments Programme was initiated, comprising 6 projects of the aggregate value of PLN 1.4 billion. The main goal is to improve the efficiency of PKN ORLEN's Heat and Power Plant and the Production Plant and ensure the compliance with the environmental norms which are to be applicable since 2016. Also, the increase in revenues is planned through the active participation in the market of trading in the so called "red" electricity. The completion of the investment programme is planned for 2017.
In respect of the implementation of the 3rd pillar of the strategy relating to the reorganisation of ORLEN Group, the activities were undertaken with the key goals to:

- strengthen mechanisms of segment management in the ORLEN Group,

- enhance effectiveness of the companies as regards their core business,
- withdraw from the companies operating outside the core business of PKN ORLEN.

The year 2011 will be another year of restructuring of the ORLEN Group structure in accordance with the adopted segment management model. In 2010, the shareholders of a telecommunications company, Polkomtel S.A., intensified their activities aimed at disposing of the stake of shares held. As at the date of this report, the process of the information memorandum distribution has been completed and the preliminary offers submitted by the investors were assessed. Another step will be the selection of the short list of offerers and the due diligence of Polkomtel S.A.

In June 2010 the negotiations with Zakłady Azotowe "Puławy" S.A. on the sale of shares of Anwil S.A. were discontinued due to the differences in the stances concerning the price-related and other terms and conditions of the transaction. In 2011, in line with the adopted strategy, PKN ORLEN is to continue its activities concerning the sale of Anwil S.A. At present, the possibilities of selling the separated areas of the company's business are being analysed.

In order to strengthen the control over the strategic entities of the ORLEN Group, in December 2010 PKN ORLEN purchased from the State Treasury 5.56% of the shares in Anwil S.A. and 9.19% of the shares in Rafineria Trzebinia S.A.

In 2010, the preparations were made as regards the process of divestment of ORLEN Budonaft and ORLEN Centrum Serwisowe and the merger of ORLEN Eko with ORLEN Prewencja by way of incorporation. These processes are also to be continued in 2011.

IV. ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

In 2010, the biggest investment projects aimed at enhancing production potential of PKN ORLEN through the use of modern manufacturing technologies were finalised.
In the refinery segment, the construction of HON VII complex was completed. The complex will materially enhance the potential for processing medium distillates by almost 1 million tonnes annually and will replace two already worn and torn HON II and III systems based on the technologies from the 60-ies. The installation will satisfy the increasing market demand for high quality diesel oil with low sulphur content. The installation is characterized with great flexibility in respect of the raw material processing, higher desulphurisation level and lesser adverse impact on environment. HON VII will bring additional benefits in the form of lower consumption of circulating water and fuels in process ovens and higher tightness of the installation. On the Fluid Catalytic Cracking installation a modern recovery boiler designed for cooling technological gasses was started up. The energy recovered in that way is used to produce process steam for the installation’s own needs.

In 2010, the petrochemical segment saw the completion of the Paraxylene (PX) and Terephthalic Acid (PTA) complex of the capacity of 600 thousand tonnes per year. Thanks to this investment, the PKN ORLEN will join a small group of manufacturers of the raw material of highest quality used mainly in the plastic industry. As part of the further development of the segment the analyses were conducted in relation to the construction of the new Phenol complex construction. The project scale was comparable to the Paraxylene complex project, which is now at the last phase of realization.

In 2010, PKN ORLEN performed also research and development works in view to improve operational effectiveness of individual manufacturing complexes.
The pending project involving the implementation of Advance Process Control (APC) systems was supposed to limit energy consumption and enhance yield on the products most profitable in the current market situation. As a consequence of the Solomon Fuel Study, the tools were developed to monitor the key technical parameters concerning the consumption of power utilities, reasons for manufacturing complex standstills, product quality parameters. The figures from this system are used to calculate key parameters for manufacturing installations in the refinery for the day-to-day assessment of its effectiveness and also represent the guidelines for current and future operational decisions. As part of improving operational effectiveness, more than 50 overloading and efficiency tests were conducted on the production installations in order to find out the optimal parameters for processes. The results of the tests underlie the modification of yield catalogues and the correction of assumptions for the needs of production plans and will also allow for better capacity of selected production installations, thus, to improve the use of power of the overall refinery complex. The year 2010 also saw the pilot tests for energy-consumption on DRW III and Olefins II installations, which resulted in certain recommendations for actions and upgrade with a view to reduce energy consumption. Also the works were continued as part of the margin improvement NCM3 program aimed at improving the manufacturing installation performance efficiency.

In connection with performance of the National Indicative Target , in 2010, PKN ORLEN ordered the research on assessment of the increased emissions of motor gasolines depending on their ethanol contents. The results of the work were used to prepare a request addressed to the European Commission for introducing in Poland a higher limit for bioethanol fuel pressure and provide higher flexibility of using light components in gasoline fractions.
Another work in this respect performed in 2010 was the development of technical and economic guidelines for production and distribution of E85 biofuels. The introduction to the production and distribution of the above fuel will enable the performance of NIT and complies with the Ordinance of the Minister of Economy setting out quality parameters for E85 biofuels. The significant effects of this study are expected in a further perspective, after this type of fuel is popularized and the cars adopted for E85 biofuel supply.

PKN ORLEN Group satisfied also the requirements set out by REACH (Registration, Evaluation and Authorisation of Chemicals) Programme which is designated to replace majority of the most hazardous chemical substance with their safer substitutes. In 2010, as part of that programme, PKN ORLEN conducted works related to the registration of produced and imported substances with the system central data base.

As part of strategic projects relating to the construction of a energy sector, the ORLEN Group started the works on completion of the CCGT gas and steam power plant in Włocławek equipped with the gas and steam condensation unit of the nominal capacity equal to 420-490 MWe net. The best advantages of gas and steam units include high efficiency of 58-60%. It is much higher than for classic conventional energy producing systems supplied with carbon, showing efficiency of maximum 45-46%. Also flexibility of the unit work is of significance in the period of variable load volume and low emission of pollutions with simultaneous lack of combustion wastes. Technologies used in CCGT units provide for much lower emissions of hazardous substance, including for instance NOx, SO2 and greenhouse gases.

In March 2010, the Manufacturing Plant in Płock launched the Environmental and Energy Investment Programme with a view to strengthen the potential of the Power Plant, balance energy needs and upgrade the existing boiler units in the Power Plant and to continue the activities in the area of environmental protection to enter into force after 2015. The main Project components include:

- construction of the boiler of 300MWt (K8) capacity in order to ensure the assortment of steam and electricity,
- upgrade of Fuel Pumping Station (MPP) in order to improve the standards of storing and processing various types of fuel,
- installation of wet desulphurisation of exhaust gases to ensure reduction of SO_2,
- covering electrofilters to reduce dust emissions,
- construction of TG7turbo unit to increase the electricity production volume,
- construction of the installation for Catalytic Denitrogeneation of exhaust gases to reduce the NOx emissions.

As part of the above project, in 2010, an adviser was appointed to provide technical support in the process of selecting contractors for the investment. The investment programme is planned to be completed in 2017.

V. CORPORATE GOVERNANCE

5.1 A set of corporate governance rules followed by PKN ORLEN in 2010

In 2010, PKN ORLEN complied with the "Best Practice for Companies Listed on the Stock Exchange" (further the "Best Practice for WSE Listed Companies") valid for the Warsaw Stock Exchange. The Code of Best Practice for WSE Listed Companies can be found on the website dedicated to the corporate governance at the Warsaw Stock Exchange: www.corp-gov.gpw.pl and on the corporate website: www.orlen.pl in the "Investor Relations" section dedicated to the Company's shareholders under "Shareholder services & tools" in the "WSE Best Practice" tab.
In mid-2010 the Warsaw Stock Exchange (WSE) reviewed the Code of Best Practice for WSE Listed Companies and adjusted it to make it compliant with the amendments introduced to the provisions of law, international guidelines and stakeholders' expectations.
In 2010 PKN ORLEN applied all the corporate governance rules set out in both: the formerly applicable and updated Code of Best Practice for WSE Listed Companies.

The Company follows also those recommendations provided for in the "Code of Best Practice for WSE Listed Companies", which are not mandatory. Thus, it undertakes a number of activities with a view to improve communication with its environment. In order to reach a wide range of recipients it applies both traditional and modern tools of communication with the capital market representatives. It organizes direct internet transmissions with simultaneous translation into English from media conferences following each significant event in the Company's life, such as quarterly results publication, announcement of strategies, as well as from the PKN ORLEN General Meeting. Video records from the conference are stored on the Company's website, thus, it is possible to view a selected past event.

PKN ORLEN has its corporate website, which is a reliable and useful source of information about the Company for the capital market representatives. The internet service contents are prepared in a transparent, fair and complete way so as to enable the investors and analysts to take decisions based on the information presented by the Company. The Company provides all the interested parties with equal access to the information published on the website. The investor relations section is maintained both in Polish and in English.

The PKN ORLEN website in its present form was launched at the turn of 2009/2010 under the current address: www.orlen.pl. The portal was developed with the use of new technology and contains also a new service for the Company's shareholders and for the stock exchange investors and analysts. It contains a lot of modern tools and information on the Company, in line with the latest market standards.

One can find there, among others:
- interactive diagrams and tables fastly comparing the Company's financial ratios in different time periods,
- interactive diagrams and tables showing PKN ORLEN share quotations with a calculator of the return on investment in the Company's stock,
- special form for contacts with the Company in respect of PKN ORLEN General Meetings, in accordance with the most recent amendments to the Commercial Code,
- possibility to subscribe for various types of PKN ORLEN newsletters, including the most recent investor relations news.

The investor relations section on the corporate website is divided into a few tabs to find all the current and periodical reports published by the Company as well as presentations prepared for material events in the Company with audio and video recording of such events.

There is also the WSE best practice tab on the website, in the investor relations section. One can find there the Company's annual reports on complying with best practice rules and the "Code of Best Practice for WSE Listed Companies" as well as brief information on best practice applied by the Company and the rules for selecting an entity authorized to audit the financial statements.

Via the corporate website the information is provided on the dates of general meetings, draft resolutions and the whole set of documents presented to the shareholders at general meetings. The Company ensures also communication with its shareholders via a special Internet contact form related to general meetings.

On a regular basis the Company actively participates in the meetings with investors and analysts both in Poland and abroad. Conferences, individual and group meetings, and teleconferences are organized with stakeholders on the capital market. The Company's representatives regularly go for the so-called roadshows – series of meetings with investors at their work place. For the capital market stakeholders interested in the Company's operations also the so-called site visits are organized, i.e. visits of shareholders or analysts in the production plant, which allow them to better acquaint with the Company specifics.

During the meetings with the capital market representatives, the representatives of PKN ORLEN provide information about the Parent Company, however, it is also possible to get feedback for the Company from the shareholders, investors or stock exchange analysts. Thanks to this feedback the Company, being aware of the information needs of its stakeholders, can develop and improve its relations with the capital market.

The Company is striving to broaden and diversify its investors base. Thus, it undertakes activities aimed at active promotion of its business activity amongst prospective shareholders, also in new financial centres worldwide.

With a view to develop the forms and quality of communication with the capital market, the Company publishes on a quarterly basis the so-called “trading statement”, i.e. operational and financial estimates and expectations of operating profit (EBIT) trends, taking into account the impact of macroeconomic factors and significant one-offs on the operating profit (EBIT). These estimates are published a few weeks prior to the date of publication of the quarterly report. “Trading statements” allow for a fair building of consensus in respect of the Company’s forecasted financial results on the capital market prior to their publication. This report creates new standards in the area of investor relations. Its favourable reception confirms how important for PKN ORLEN is an appropriate and timely communication with the market on the key topics for the investors.
The care for communication with the capital market players was appreciated also in 2010 and reflected through the awards granted to the Company in the area of investor relations:

- Listed Company of the Year in the Investor Relations category – ranking by Puls Biznesu/Pentor,
- First rank in WarsawScan 2010 – best information policy and corporate governance,
- First rank in WarsawScan 2010 – best website devoted to investor relations,
- “Best investor relations in Poland 2010” - IR Magazine.

5.2 Description of key features of PKN ORLEN’s internal audit and risk management systems related to the process of financial reporting

The Company’s system of internal control and risk management in the process of drawing up financial statements is implemented through:

- verification whether a single accounting policy is applied by the ORLEN Capital Group companies as regards the recognition, measurement and disclosures in accordance with the International Financial Reporting Standards (IFRS),
- following accounting standards and monitoring compliance with them,
- a review, by an independent auditor, of the published financial reports for the 1st quarter, the half-year and the 3rd quarter of the year and the audit of the annual financial statements of PKN ORLEN and the ORLEN Capital Group,
- procedures to authorise and give opinions about financial statements before they are published,
- carrying out an independent and objective evaluation of risk management and internal control systems.

In order to ensure that unified accounting standards are applied, the ORLEN Group companies have to follow, for the purpose of preparing the consolidated financial statements, the accounting policy adopted by PKN ORLEN, periodically updated to ensure that it complies with the applicable laws, specifically with the IFRS, the Accounting Act dated 29 September 1994 and the Ordinance of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities. The Corporate Accounting Office monitors whether this obligation is fulfilled and conducts comprehensive analytical procedures supplemented with control activities, as well as develops instructions and guidelines on identified issues, requiring detailed explanations to ensure proper and uniform financial reporting principles.

The consolidated financial statements are drawn up based on reporting packages provided by the ORLEN Group companies which are reviewed in terms of their cohesion, completeness and continuity. Data required for the standalone financial statements is derived from accounting records kept in accordance with the PKN ORLEN procedures. The disclosures also cover additional information provided by individual organisational units of PKN ORLEN, which is also checked by the Corporate Accounting Office.

In order to reduce the risks relating to the process of drawing up financial statements on a current basis, they are quarterly checked by an auditor, i.e. more often than required under the applicable law. The financial statements for the 1st quarter, the half-year and the 3rd quarter of the year are reviewed, whereas the annual financial statement is subject to audit. The auditor presents the results of the reviews and audits to the Management Board and the Audit Committee of the Supervisory Board.

The Company has certain procedures to authorise the financial statements under which the periodical reports are submitted to the Management Board and, subsequently, forwarded to the Audit Committee of the Supervisory Board for their opinion. Once the opinion has been obtained from the Audit Committee and once the auditor has ended its review, the financial statements are approved by the Management Board for publication and subsequently forwarded by the Investor Relations Office to the appropriate capital market institutions and made public. Before the publication, the financial statements are treated as confidential by the Company and provided solely to persons involved in the preparation, control and approval process.

The Company has an Audit Department which has to ensure an independent and objective evaluation of the risk management and internal audit systems, and analyse business processes. The Department operates based on the annual audit plans approved by the Management Board and accepted by the Audit Committee of the Supervisory Board and the Supervisory Board itself. The Audit Department can also carry out *ad hoc* audits as ordered by the Company's Supervisory Board or the Management Board.

In pursuit of the tasks and objectives set, the Audit Department provides recommendations as to the implementation of solutions and standards designed to mitigate the risk of PKN ORLEN not meeting the targets set, to improve the effectiveness of the internal control system and to increase the efficiency of business processes. Additionally, the Audit Department monitors the follow-up on its own recommendations as well as those given by the auditor as to the Company's financial statements.

Twice a year the Audit Department draws up a report for the Management Board and the Audit Committee of the Supervisory Board on monitoring the recommendations, summarising the conclusions regarding the audit tasks performed, identified risks and information about the implementation status of the recommendations given.

5.3 PKN ORLEN's shareholders with a significant stake

PKN ORLEN shares are listed on the Warsaw Stock Exchange Main List in the continuous trading system and in WIG20, the biggest companies index, WIG index as well as the industry index – WIG fuels. Since 19 November 2009 PKN ORLEN shares have been listed in the index of companies involved in corporate social responsibility – Respect Index.

PKN ORLEN shares are listed also in the form of Global Depositary Receipts (GDR) on the London Stock Exchange. Depositary receipts are also traded in the USA on the OTC market.
The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares with a par value of PLN 1.25 each.

PKN ORLEN depositary receipts are lodged with The Bank of New York Mellon. The transaction unit on the London Stock Exchange is 1 GDR which accounts for two PKN ORLEN shares.

The ownership rights relating to PKN ORLEN shares are fully transferable.

Below is a list of PKN ORLEN's shareholders holding a significant stake is presented, specifying the number of shares held, the percentage of their share in the Company's share capital, the number of votes conferred by the shares held and their percentage share in the total number of votes at PKN ORLEN's General Meeting.

The year 2010 saw two changes in the structure of shareholders with more than 5% in the Company's share capital. The first one occurred on 5 February 2010 when Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK acquired the Company's shares representing 5.08% of the PKN ORLEN' s share capital. Then, at the end of the year, on 23 November 2010, the Company was notified by ING Otwarty Fundusz Emerytalny (ING Open Pension Fund) that the fund reduced its share in the overall number of votes at the General Meeting of PKN ORLEN below 5%. ING Otwarty Fundusz Emerytalny maintained its over 5% shareholding in the Company's share capital from 18 February 2009.
Shareholding structure in PKN ORLEN as at 1 January 2010:

Shareholders	Number of shares	Number of votes at General Meeting of PKN ORLEN	Share in total number of votes at General Meeting of PKN ORLEN	Percent of share capital of PKN ORLEN
State Treasury	117,710,196	117,710,196	27.52%	27.52%
ING Otwarty Fundusz Emerytalny*	22,118,813	22,118,813	5.17%	5.17%
Others	287,880,052	287,880,052	67.31%	67.31%
Total	**427,709,061**	**427,709,061**	**100.00%**	**100.00%**

* in accordance with information received by the Company on 20 February 2009.

Shareholding structure in PKN ORLEN as at 31 December 2010:

Shareholders	Number of shares	Number of votes at General Meeting of PKN ORLEN	Share in total number of votes at General Meeting of PKN ORLEN	Percent of share capital of PKN ORLEN
State Treasury	117,710,196	117,710,196	27.52%	27.52%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK **	21,744,036	21,744,036	5.08%	5.08%
Others	288,254,829	288,254,829	67.40%	67.40%
Total	**427,709,061**	**427,709,061**	**100.00%**	**100.00%**

* *in accordance with information received by the Company on 9 February 2010

5.4 PKN ORLEN's shareholders vested with special control rights and voting right restrictions

One PKN ORLEN share confers the right to one vote at the Company's General Meeting.

As regards the voting right of particular shareholders, the Articles of Association state as follows:

– the voting right of the Company's shareholders is restricted to the extent that at the General Meeting of Shareholders none of them can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held, provided that such a restriction of the voting right does not apply for the purpose of determining the duties of acquirers of significant stakes in accordance with the Act on Public Trading in Securities. The restriction, referred to in the previous sentence, does not apply to Nafta Polska S.A.[1], the State Treasury and the depository bank which issued depositary receipts in connection with the Company's shares under an agreement with the Company (if the bank exercises the voting right from the Company's shares). The voting right exercised by the subsidiary is deemed to be exercised by the parent company within the meaning of the Act on Public Trading in Securities. In order to calculate the number of votes held by a shareholder, the voting rights from the shares is added to the number of votes that the particular shareholder would acquire in the event of converting the depositary receipts held into shares,

– a shareholder is deemed to be each person, including the parent company and its subsidiary, that is directly or indirectly entitled to the voting right at the General Meeting under any legal title; that refers also to a person that is not a Company's shareholder, in particular a user, pledgee, a person authorised from the depositary receipt within the meaning of the Act of 29 July 2005 on Trading in Financial Instruments as well as a person authorised to participate in the General Meeting despite the shares held having been disposed of following the day when the right to participate in the General Meeting was established,

– the parent company and the subsidiary shall accordingly mean a person:
  - that has the status of the dominant entity, dependent entity or both within the meaning of the Act of 16 February 2007 on Competition and Consumers Protection, or
  - that has the status of the parent company, senior parent company, subsidiary, lower level subsidiary, jointly controlled entity or of both parent company (including senior parent company) and subsidiary (including the lower level subsidiary and jointly controlled entity) within the meaning of the Accounting Act of 29 September 1994, or
  - that exerts (parent company) or is subject to (subsidiary) significant influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations Between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs, or
  - whose votes from the Company's shares held directly or indirectly are accumulated with the votes of another person or other persons under the rules stipulated in the Act of 29 July 2005 on Public Offering and Conditions for Introducing Financial Instruments to the Organised Trading System and Public Companies, in connection with holding, selling or purchasing Company substantial shareholdings,

– shareholders, whose votes are cumulated and reduced, are jointly referred to as the Shareholders Grouping. The cumulation of votes involves summing up the votes held by individual shareholders of the Shareholders

[1] Nafta Polska S.A. ceased to be a shareholder of a Company as at 22 July 2009

Grouping. The reduction of the number of votes involves decreasing the overall number of votes in the Company vested in the shareholders being members of the Shareholders Grouping to be exercised at the General Meeting. The number of votes is reduced in accordance with the following rules:

- the number of votes of a shareholder who has the largest number of votes in the Company among the votes of all shareholders in the Shareholders Grouping, is decreased by the number of votes equal to the surplus votes in excess of 10% of the overall number of votes in the Company held in aggregate by all shareholders in the Grouping,
- if, despite the reduction mentioned above, the overall number of votes held by the Shareholders Grouping to be exercised at the General Meeting exceeds 10% of the total number of votes in the Company, the number of votes held by the remaining shareholders in the Grouping is subject to further reduction. The number of votes is further reduced in the order established on the basis of the number of votes held by particular shareholders in the Shareholders Grouping (from the highest to the lowest one). The number of votes is being further reduced until the aggregate number of votes held by the Shareholders Grouping does not exceed 10% of the overall number of votes in the Company,
- in each case, the shareholder whose voting right has been restricted, preserves the right to exercise at least one vote,
- restriction of the voting right also applies to the shareholder absent during the General Meeting,

– in order to establish the basis for the votes being cumulated and reduced in accordance with the above provisions, the Company's shareholder, the Management Board, the Supervisory Board and individual members of such bodies may request the Company's shareholder to provide information on whether he/she is a person:
  - who has the status of the dominant entity, dependent entity or both within the meaning of the Act of 16 February 2007 on Competition and Consumers Protection, or
  - who has the status of the parent company, senior parent company, subsidiary, lower level subsidiary, jointly controlled entity or of both parent company (including senior parent company) and subsidiary (including the lower level subsidiary and jointly controlled entity) within the meaning of the Accounting Act of 29 September 1994, or
  - who exerts (parent company) or is subject to (subsidiary) significant influence within the meaning of the Act of 22 September 2006 on Transparency of Financial Relations between Public Authorities and Public Entrepreneurs and on Financial Transparency of Certain Entrepreneurs, or
  - whose votes from the Company's shares held directly or indirectly are cumulated with the votes of another person or other persons under the rules stipulated in the Act of 29 July 2005 on Public Offering and Conditions for Introducing Financial Instruments to the Organised Trading System and Public Companies, in connection with holding, selling or purchasing Company substantial shareholdings.

The power referred to above includes also the right to request the disclosure of the number of votes held by the Company's shareholder individually or together with other Company shareholders. The person that failed to perform or performed unduly the obligation to provide information referred to in this point, may exercise the voting right from one share exclusively until the breach of such obligation has been remedied and exercising the voting right by such person from other shares is ineffective,

– the restriction of the voting right, which is referred to above, does not apply to entities dependent on the State Treasury and Nafta Polska S.A.[2],

– in the event of doubts, the provisions of this chapter should be interpreted in accordance with Article 65 § 2 of the Polish Civil Code.

The State Treasury is authorised to appoint and revoke one of the Supervisory Board members. Moreover, one of the PKN ORLEN Management Board members is appointed and revoked by the Supervisory Board at request of the minister in charge of State Treasury.

In accordance with the applicable provisions of the Company's Articles of Association, until the minister in charge of State Treasury or another minister exercises the rights from PKN ORLEN shares owned by the State Treasury under the generally applicable law, the appropriate minister can appoint one or two Observers for the Company, who will be authorised to monitor the Company's activities, participate in the meetings of the Company's authorities, review the Company's documents, request reports and explanations, inspect the Company's assets. Detailed rules regulating the Observers' activity and their powers are set out in the General Meeting, Supervisory Board and Management Board Regulations. In accordance with the Act of 18 March 2010 on Specific Rights Vested in the Minister in Charge of State Treasury and The Exercise of Such Powers In Certain Capital Companies or Capital Groups Conducting Business Activities in the Electricity, Crude Oil and Gas Fuel Sectors (the "18 March 2010 Act on Specific Rights Vested In the Minister in Charge of State Treasury"), the Act of 3 June 2005 on Specific Powers Vested in the

[2] Nafta Polska S.A. ceased to be a shareholder of a Company as at 22 July 2009

Minister in Charge of State Treasury and Their Exercise in Capital Companies Significant for Public Order and Safety, which Act introduced the institution of the Observer in the Company, has expired. Thus, the Company's Management Board proposed to the General Meeting that the provisions concerning the Observer be removed from the Company's Articles of Association. The Annual General Meeting, on 25 June 2010, did not however express the consent to such change in the Company's Articles of Association. While the above act was in force, nobody was appointed to perform the function of the Observer in the Company.

Additionally, specific rights vested in the State Treasury shareholders may also arise out of the commonly applicable provisions of law, especially the 18 March 2010 Act on Specific Rights Vested In the Minister In Charge of State Treasury. Pursuant to the above act, the Minister in charge of State Treasury may object against the resolution passed by the Company's Management Board or any other legal action undertaken by the Company's Management Board regarding the disposal of assets disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in article 5b section 7 item 1 of the Act of 26 April 2007 on Crisis Management, which pose a real threat to the functioning, business continuity and integrity of the critical infrastructure. The Minister In Charge of State Treasury may also object to the Company's body passing resolution on:
- dissolution of the Company,
- change of function of, or ceasing, the exploitation of the Company's asset disclosed in the uniform list of facilities, installations, appliances and services comprised in the critical infrastructure, referred to in article 5b section 7 item 1 of the Act of 26 April 2007 on Crisis Management,
- change of the Company's business activity,
- disposal or lease of the Company's enterprise or its organized part and establishment of a limited property right thereon,
- adoption of the operational and financial plan, investment activity plan or long-term strategic plan,
- moving the Company's' seat abroad

provided that such a resolution, if performed, would actually pose a real threat to the operations, business continuity and integrity of the critical infrastructure.

In accordance with the 18 March 2010 Act on Specific Rights Vested In the Minister In Charge of State Treasury , the Company's Management Board, in agreement with the Minister in charge of State Treasury and the Director of the Government Centre for Security is authorized to appoint and revoke a plenipotentiary in charge of the protection of critical infrastructure in the Company. The scope of the plenipotentiary's tasks includes providing the Minister in charge of State Treasury with information on the Company's authorities having undertaken the above specified legal actions, providing the information on the critical infrastructure to the Director of the Government Centre for Security on request, transferring and collecting information on any threats to the critical infrastructure in cooperation with the Director of the Government Centre for Security.

5.5 Rules for amending PKN ORLEN's Articles of Association

Any amendment to PKN ORLEN's Articles of Association requires a resolution of the General Meeting of Shareholders and has to be entered in the companies register. The resolution of the General Meeting of Shareholders to amend the Company's Articles of Association is adopted by three quarters of votes. The General Meeting may authorise the Supervisory Board to formulate the uniform text of the Articles of Association or make other editorial changes as set out in the resolution passed by the General Meeting.
Once the amendments to the Articles of Association are entered in the companies register, PKN ORLEN publishes a relevant current report.

5.6 Proceedings of PKN ORLEN's general meeting of shareholders, its key powers, and shareholders' rights and their exercise

Proceedings and powers of PKN ORLEN's General Meeting of Shareholders are regulated in the Articles of Association and the Regulations of PKN ORLEN's General Meeting. The documents can be found on the PKN ORLEN's website: www.orlen.pl in the "Company" and "Investor relations" sections in the "General Meeting" tab.

5.6.1 Convening and calling off PKN ORLEN's General Meetings

The rules for convening and organising the General Meetings of Shareholders were materially amended by the General Meeting of Shareholders of PKN ORLEN on 15 July 2009. The provisions of corporate documents were then adjusted to comply with the provisions of law commonly applicable in this respect.

The General Meeting is to be convened in the manner and under the rules stipulated in the generally applicable provisions of law. The General Meeting is convened through placing an announcement on the Company's website and by delivering a current report to the capital market institutions and making it public. The announcement should be placed at least 26 days before the scheduled date of the General Meeting.

The Ordinary General Meeting of Shareholders should be held no later than within six months from the end of every financial year.

The Extraordinary General Meeting of Shareholders is convened by the Management Board on its own initiative, on the motion of the Supervisory Board or on the motion of a shareholder or shareholders representing no less than one twentieth of the Company's share capital, within fourteen days from filing the motion. The motion for the General Meeting to be held should specify the issues for the agenda or include draft resolution on the proposed agenda. The Supervisory Board may convene the Extraordinary General Meeting if the Supervisory Board recognises that it is advisable to do so. The Supervisory Board may also convene the Extraordinary General Meeting if the Management Board fails to do so within two weeks following the submission of the relevant request by the Supervisory Board. The Extraordinary General Meeting may also be convened by the shareholders representing at least one half of the share capital or at least one half of the overall number of votes in the Company.

The shareholder or shareholders representing no less than one twentieth of the Company's share capital may request that specific issues be placed on the agenda of the nearest General Meeting under the rules stipulated in the generally applicable provisions of law.

All the materials to be presented to the shareholders at the General Meeting, specifically draft resolutions to be adopted by the General Meeting and other important materials are made available by the Company following the day when the General Meeting has been convened in the Company's seat in Płock and in the Warsaw office, as well as on the corporate website www.orlen.pl.

Regardless the requirements set out in the generally applicable law on publishing draft resolutions to be presented at the General Meeting on the Company's website as soon as from the day when the General Meeting has been convened, the Company is obliged to provide draft resolutions in the form of a current report at least 26 days before the date the General Meeting is to be held in order to enable the shareholders to review and assess them.

The General Meetings of PKN ORLEN are held in the Company's seat in Plock, however, they can also be held in Warsaw.

For the shareholders who cannot participate in the General Meeting in person, the Company arranges for an internet broadcast of the Meeting and offers simultaneous translation into English.

In accordance with the General Meeting Regulations the cancellation and the change in the date of the General Meeting should be effected forthwith once the requirement for the cancellation and the change in the date has occurred but no later than seven days prior to the day when the General Meeting is to be held. If the cancellation and change in the date of the General Meeting cannot be effected within the deadline specified above, such a General Meeting should be held unless it is impossible or excessively hindered due to the circumstances. In such case, the cancellation and change in the date of the General Meeting may be effected at any time prior to the day when the General Meeting is to be held. The cancellation and the change in the date of the General Meeting is effected by announcement placed on the Company's website together with the reasons and complying with other legal requirements. Only the body or the person to have convened the General Meeting is competent to cancel the same. The General Meeting with the agenda containing specific issues put therein at the request of eligible entities, or which was convened at such a request, may be cancelled only with consent of such requesting entities.

5.6.2 Competence of PKN ORLEN's General Meeting

The General Meeting of Shareholders is especially authorised to:
- consider and approve the Company's annual financial statements, the annual report on the Company's business operations, the consolidated financial statements of the ORLEN Capital Group and the report on the ORLEN Capital Group business operations for the previous financial year,
- acknowledge the discharge of duties by the Supervisory Board and Management Board members,
- decide on the allocation of profit and the absorption of losses as well as on the use of funds set up from profit, subject to special regulations which provide for a different way of their usage,
- appoint the Supervisory Board members, subject to the provisions of § 8 item 2 of the Articles of Association, and establish principles for their remuneration,
- increase and decrease the share capital unless otherwise stated in the Commercial Code and the Company's Articles of Association,
- decide on claims for the rectification of damage caused when setting up the Company or exercising supervision or management,

– approve the sale and lease of the Company's enterprise or an organised part thereof and establish a limited property right on such enterprise or an organised part thereof,
– grant consent to the sale of real estate, perpetual usufruct or interest in real estate whose net book value exceeds one twentieth of the Company's share capital,
– amend the Company's Articles of Association,
– set up and dissolve reserve capitals and other capitals and the Company's funds,
– pass resolutions to redeem shares and buy shares to be redeemed and to establish the redemption rules,
– issue convertible bonds or bonds with pre-emptive rights and the issue of warrants,
– pass resolutions on winding-up the Company, its liquidation, restructuring and merger with another company,
– conclude holding contracts within the meaning of Article 7 of the Polish Commercial Code.

Purchase of real estate, perpetual usufruct or interest in real estate, regardless of its value, as well as disposal of real estate, perpetual usufruct or interest in real estate where net book value does not exceed one twentieth of the Company's share capital does not require a consent resolution of the General Meeting of Shareholders.

5.6.3 Voting at PKN ORLEN's General Meetings

Unless stated otherwise in the Commercial Code and the Articles of Association, resolutions of the General Meeting of Shareholders are passed with an absolute majority of votes cast, while votes cast mean votes "for", "against" and "abstain."

Resolutions of the General Meeting of Shareholders regarding preferred shares and the Company's merger as a result of all the Company's assets being transferred to another company, winding-up of the Company (including winding-up as a result of the Company's seat or business operations center being transferred abroad), liquidation of the Company, its restructuring and decrease in the share capital by redemption of some shares without the capital being simultaneously increased are passed with a majority of 90% of votes cast.

The General Meeting's resolution to renounce the examination of an issue placed on the agenda may be adopted only in case when there are substantial reasons to do so. The resolutions to remove or not to consider an item placed on the agenda on the motion of the shareholders require the majority of 75% of votes cast provided that the shareholders present at the General Meeting who requested this issue be placed on the agenda previously agreed to the issue being removed from the agenda or not considered at all.

One PKN ORLEN share confers the right to one vote at the Company's General Meeting. The voting right of the Company's shareholders is restricted to the extent that at the General Meeting of Shareholders none of them (but for those specified in the Company's Articles of Association) can exercise more than 10% of the total votes existing in the Company as at the date the General Meeting of Shareholders is held. The detailed rules for exercising the voting right have been described in chapter IV of this report.

The shareholders can participate in the General Meeting and exercise their voting rights in person or by proxy.

5.6.4 Participation in PKN ORLEN's General Meetings

In accordance with Article 406(1) § 1 of the Polish Commercial Code, the right to participate in the Company's General Meeting is vested only in the persons that are the Company's shareholders sixteen days before the date of the General Meeting (date of registration in the General Meeting).

At the request of the shareholder, filed no earlier than the announcement of convening the General Meeting has been published and no later than on the working day following the day when the participation in the General Meeting has been registered, the entity where the securities account is kept issues a personal certificate of entitlement to attend the General Meeting. This certificate includes:
– the business name, seat, address and stamp of the issuer and the certificate number,
– number of shares held,
– type and code of shares,
– the business name, seat and address of the Company,
– nominal value of shares,
– name and surname or the business name of the shareholder,
– the seat (place of residence) and address of the shareholder,
– purpose of issuing the certificate,
– date and place of issuing the certificate,
– signature of the person authorised to issue the certificate.

At the request of the shareholder, the certificate should specify part or all of shares registered in his/her securities account.

The list of shareholders eligible to participate in the General Meeting is compiled by the Company on the basis of a specification prepared by the entity maintaining the securities deposit in accordance with the provisions of the Act on Trading in Financial Instruments dated 29 July 2005 (at present The National Depository for Securities, KDPW). KDPW prepares the list of entities entitled to participate in the General Meeting on the basis of specifications provided no later than twelve days prior to the date of the General Meeting date by the eligible entities. The lists submitted to KDPW are compiled on the basis of issued certificates of entitlement to participate in the General Meeting. KDPW provides such a list for the company's review no later than a week prior to the date of the General Meeting.

The General Meeting may be attended by the members of the Management Board and the Supervisory Board, who can take the floor, even if they are not shareholders, without any invitations being sent. An Ordinary General Meeting of Shareholders can be attended by the members of the Management Board and the Supervisory Board whose mandates have expired before the date of the General Meeting and who exercised their functions in the financial year for which the Management Board report and the financial statements are to be approved by the Ordinary General Meeting of Shareholders.

General Meetings of Shareholders can also be attended by other persons invited by an authority convening the General Meeting or allowed to enter the meeting room by the Chairman, specifically, certified auditors, legal and financial advisers or the Company's employees. PKN ORLEN, as far as admissible under the applicable law and with due consideration of the Company's interests, allows media representatives to attend the General Meetings. The Management Board ensures that each General Meeting is attended by an independent expert specialised in commercial law.

Members of the Management Board and the Supervisory Board and the Company's certified auditor provide the Meeting participants with explanations and information about the Company, within the scope of their authorisation and to the extent required for the issues discussed by the General Meeting to be resolved. Questions posed by the General Meeting participants are answered in view of the fact that PKN ORLEN, as a public company, fulfills its reporting obligations in a manner specified in the applicable capital market regulations and the information cannot be provided otherwise than in conformity with these regulations.

General Meetings can be attended by an Observer appointed by the minister in charge of State Treasury affairs. Until the publication of this report, the minister in charge of State Treasury affairs has not appointed any Observer for PKN ORLEN and, as stated in chapter IV of this report, the Act of 3 June 2005 on Specific Powers Vested in the State Treasury and Their Exercise in Joint-stock and limited-liability Companies of Material Significance for Public Order or Public Security, which established the institution of Observer in the Company, has expired.

In accordance with the Act of 18 March 2010 on Specific Powers Vested in the Minister in Charge of State Treasury, the right to request from the Company's authorities, including the General Meeting, any documents, information and explanations relating to the issues listed in the Act (i.e. concerning the Company's property disclosed in a uniform list of facilities, installations, devices and services comprised by the critical infrastructure referred to in the Act of 26 April 2007 on Crisis Management) is vested in charge of critical infrastructure protection.

PKN ORLEN pays special attention to activities facilitating the Company's communication with the external environment. For shareholders who cannot participate in the General Meeting in person, the Company arranges for an internet broadcast of the Meeting and offers simultaneous translation into English.
A special section dedicated to the Company's General Meetings is included on the corporate PKN ORLEN website where information about the planned shareholders' meetings is provided along with material relating to such meetings, archive materials from the meetings held, including texts of resolutions adopted and video files with internet broadcasts of the General Meetings.

5.6.5 General Meeting in 2010

The General Meeting of the Company was held, on 25 June 2010. This was the Ordinary General Meeting of PKN ORLEN.

During the debates of the Ordinary General Meeting the shareholders approved the annual reports on the operations of the Company and the ORLEN Capital Group as well as the financial statements for 2009. They also resolved on confirming the performance of duties by all the Supervisory and Management Boards members.

The General Meeting resolved also to allocate the Company's entire profit generated in 2009 to the Company's reserve capital.

The debates concerned also amendments to the PKN ORLEN's Articles of Association relating, among others, to the adjustment of current provisions of PKN ORLEN's Articles of Association to commonly applicable provisions of law. Moreover, the provisions of the Articles of Association relating to the Company's objects were extended to include two new areas, i.e. retail sales of alcoholic and non-alcoholic beverages carried on in specialised stores and the publishing of newspapers.

The General Meeting also consented to the disposal, lease or encumbrance with any other third party rights, of a few fuel stations as organized parts of the Company.

At the last year meeting, the General Meeting appointed the Supervisory Board members for the new term of office: Mr Maciej Mataczyński was appointed to perform the function of Chairman, and Ms Angelina Sarota, Mr Grzegorz Borowiec, Mr Artur Gabor, Mr Marek Karabuła, Mr Krzysztof Kołach, Mr Leszek Jerzy Pawłowicz and Mr Piotr Wielowieyski – to the function of Supervisory Board Members. On the same day the State Treasury appointed also Mr Janusz Zieliński to the PKN ORLEN Supervisory Board.

5.7 Composition and proceedings of the management and supervisory authorities in PKN ORLEN and their committees

5.7.1 Composition of PKN ORLEN's Management Board in 2010

In 2010 the following persons were acting as members of the Management Board in PKN ORLEN:

Name and surname	Position held in PKN ORLEN's Management Board
Dariusz Jacek Krawiec	President of the Management Board, Chief Executive Officer as of 18 September 2008 Vice-President of the Management Board in charge of Crude Oil and Capital Group as of 17 June 2008 Vice- President of the Management Board as of 7 June 2008
Sławomir Jędrzejczyk	Vice-President of the Management Board, Chief Financial Officer as of 23 September 2008 Vice-President of the Management Board as of 18 September 2008 Member of the Management Board, Chief Financial Officer as of 17 June 2008 Member of the Management Board as of 7 June 2008
Wojciech Kotlarek	Member of the Management Board in charge of Sales as of 17 June 2008 Member of the Management Board as of 7 June 2008
Krystian Pater	Member of the Management Board in charge of Refinery as of 17 June 2008 Member of the Management Board as of 7 June 2008 Member of the Management Board in charge of Production from 20 March 2007 to 6 June 2008
Marek Serafin	Member of the Management Board in charge of Petrochemistry as of 17 June 2008 Member of the Management Board as of 7 June 2008

5.7.2 Composition of PKN ORLEN's Supervisory Board in 2010

In 2010 the Company's business was monitored by the Supervisory Board in the following composition:

Name and surname	Position held in PKN ORLEN's Supervisory Board
Maciej Mataczyński	Chairman of the Supervisory Board as of 7 February 2008
Marek Karabuła	Vice-Chairman of the Supervisory Board from 15 February 2008 to 26 June 2010 and as of 20 July 2010 Member of the Supervisory Board as of 7 February 2008
Grzegorz Borowiec	Member of the Supervisory Board as of 7 February 2008
Krzysztof Kołach	Member of the Supervisory Board as of 7 February 2008
Jarosław Rocławski	Member of the Supervisory Board from 13 June 2008 to 25 June 2010
Piotr Wielowieyski	Member of the Supervisory Board as of 7 February 2008
Angelina Sarota	Secretary of the Supervisory Board from 13 June 2008 to 25 June 2010 and as of 20 July 2010 Member of the Supervisory Board as of 13 June 2008
Janusz Zieliński	Member of the Supervisory Board as of 6 July 2007
Artur Gabor	Member of the Supervisory Board as of 25 June 2010
Leszek Jerzy Pawłowicz	Member of the Supervisory Board as of 25 June 2010

5.7.3 Composition of Supervisory Board Committees in PKN ORLEN in 2010

Name and surname	Position held in PKN ORLEN's Supervisory Board Committee
Audit Committee	
-from 20 July 2010 to 31 December 2010	
Artur Gabor	Committee Chairman, Independent Member of the Supervisory Board
Marek Karabuła	Committee Member
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
-from 1 January 2010 to 25 June 2010	
Piotr Wielowieyski	Committee Chairman, Independent Member of the Supervisory Board
Marek Karabuła	Committee Member
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
Corporate Governance Committee	
-from 20 July 2010 to 31 December 2010	
Angelina Sarota	Committee Chairman
Grzegorz Borowiec	Committee Member
Maciej Mataczyński	Committee Member
-from 1 January 2010 to 25 June 2010	
Grzegorz Borowiec	Committee Chairman
Maciej Mataczyński	Committee Member
Angelina Sarota	Committee Member
Strategy and Development Committee	
- from 20 July 2010 to 31 December 2010	
Marek Karabuła	Committee Chairman
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Leszek Jerzy Pawłowicz	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
- from 1 January 2010 to 25 June 2010	
Marek Karabuła	Committee Chairman
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Janusz Zieliński	Committee Member, Independent Member of the Supervisory Board
Nomination and Remuneration Committee	
- from 20 July 2010 to 31 December 2010	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Artur Gabor	Committee Member, Independent Member of the Supervisory Board
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
- from 1 January 2010 to 25 June 2010	
Maciej Mataczyński	Committee Chairman
Grzegorz Borowiec	Committee Member
Krzysztof Kołach	Committee Member, Independent Member of the Supervisory Board
Piotr Wielowieyski	Committee Member, Independent Member of the Supervisory Board
Jarosław Rocławski	Committee Member

5.7.4 The rules of conduct of the Management Board and Supervisory Board and Supervisory Board Committees in PKN ORLEN

Apart from generally applicable laws, the rules of conduct for PKN ORLEN's Supervisory Board, its Committees and the Management Board are regulated in PKN ORLEN's Articles of Association and the Supervisory Board and the Management Board Regulations, respectively. The proceedings of the management and supervisory authorities in PKN ORLEN are also subject to the corporate governance principles set out by the Warsaw Stock Exchange.

5.7.5 The rules of conduct of PKN ORLEN's Supervisory Board

Appointing and recalling members of PKN ORLEN's Supervisory Board

Members of PKN ORLEN's Supervisory Board are appointed for a common term of office, ending on the day when the Ordinary General Meeting has been held, approving the financial statements for the whole second financial year of such term of office. Individual members of the Supervisory Board and the entire Supervisory Board can be recalled at any time before the end of the term of office. The General Meeting of PKN ORLEN appoints the Chairman of the Supervisory Board, whereas the vice-chairman and the secretary are appointed by the Supervisory Board from amongst the other members of the Board.

PKN ORLEN's Supervisory Board is composed of six to nine members. The State Treasury is authorised to appoint and recall one member of the Supervisory Board, other members of the Supervisory Board are appointed and recalled by the General Meeting of Shareholders. On 25 June 2010 the Annual General Meeting of PKN ORLEN appointed Supervisory Board Members to a new term of office.

Pursuant to the Articles of Association of PKN ORLEN, at least two members of the Supervisory Board have to comply with the following independency provisions (the so-called independent members of the Supervisory Board):

- he/she is not an employee of the Company or a Related Entity,
- he/she has not been a member of management authorities of the Company or a Related Entity within the last five years prior to the appointment to the Supervisory Board,
- he/she is not a member of supervisory and management authorities of a Related Entity,
- he/she does not receive nor has received, within the last five years prior to the appointment to the Supervisory Board, a considerable additional remuneration, i.e. remuneration exceeding the aggregate amount of PLN 600,000 from the Company or a Related Entity, apart from the remuneration due to the member of supervisory authorities,
- he/she is not nor has been, within the last three years prior to the appointment to the Supervisory Board, a partner or employee of the current or former chartered auditor examining the financial statements of the Company or a Related Entity,
- he/she is not a shareholder holding 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting,
- he/she is not a member of supervisory or management authorities or an employee of an entity having 5% or more votes at the Company's General Meeting of Shareholders or a Related Entity's General Meeting
- he/she is not an ascendant, descendant, spouse, sibling, spouse's parent or any other person remaining in an adoptive relationship with any of the persons mentioned above,
- he/she has not hold the position of the Company's Supervisory Board member for more than 3 terms of office,
- he/she is not a member of the Management Board of the company, where a member of the Company's Management Board holds the position of a member of the Supervisory Board,
- he/she is free from any significant connections with members of the Company's Management Board by participation in other companies.

Independent members of the Supervisory Board, before being appointed to the Supervisory Board, should submit to the Company a written statement confirming that they comply with the above mentioned provisions. If the said provisions are not met, a member of the Supervisory Board is obliged to immediately notify the Company thereof. The Company informs the shareholders about the current number of independent members of the Supervisory Board.

If the number of independent members of the Supervisory Board is less than two, the Company's Management Board is obliged to immediately convene a General Meeting of Shareholders and put an issue concerning changes in the composition of the Supervisory Board on the agenda of the General Meeting. The Supervisory Board acts in its current composition until the changes in the composition of the Supervisory Board are made, i.e. the number of independent members is adjusted to the statutory requirements set in the Articles of Association whereas the provisions of § 8 item 9 point a of the Articles of Association (containing a list of resolutions which must be passed with consent of at least one half of independent Supervisory Board members) do not apply.

Organisation of PKN ORLEN's Supervisory Board's operations

Sessions of the Supervisory Board are held when necessary, however, not less frequently than once every two months. Moreover, as stated in the Company's Articles of Association, a Supervisory Board session should be convened following a written request of a shareholder or shareholders representing at least one tenth of the share capital, the Management Board or a member of the Supervisory Board. In such cases the session should be convened within two weeks from the receipt of such request and should be held no later than within three weeks of such request being received. If a Supervisory Board session is not convened within two weeks of the request being filed, the requestor can call the session by himself through a written notice specifying the time, venue and the proposed agenda sent to the members of the Supervisory Board, at least seven days before the date of the session.

Sessions of the Supervisory Board can only take place when all its members have been properly invited. Sessions can also be held without the meeting being formally convened if all the Supervisory Board members are present and grant their consent to the session being held and certain issues being put on the agenda.

The Supervisory Board can pass resolutions if at least half of its members participate in the session. Subject to the provisions of the Commercial Code, a resolution of the Supervisory Board can be passed in writing or with the use of direct means of remote communication. Resolutions of the Supervisory Board are passed with an absolute majority of the votes cast, in the presence of at least half of the members of the Supervisory Board, while the votes cast mean votes "for", "against" and "abstain." This does not apply to any members of the Management Board or the entire Management Board being recalled or suspended during the term of their office when at least two thirds of all the Supervisory Board members have to vote in favour of the resolution.

Passing resolutions on the following matters:
– any contribution to members of the Management Board provided by the Company or any related entities,
– giving permission to sign any significant agreement by the Company or a subsidiary with an entity related to the Company, a member of the Supervisory Board, or Management Board, as well as with their related entities,
– appointing a certified auditor to audit the financial statements of the Company

requires the consent of at least one half of the independent members of the Supervisory Board. Such provisions do not exclude applying Article 15 § 1 and 2 of the Commercial Code.

With a view to fulfilling its duties, the Supervisory Board can review all the Company documents, demand reports and explanations from the Management Board and the employees, and inspect the Company's assets.

Competence of PKN ORLEN's Supervisory Board

The Supervisory Board of PKN ORLEN exercises permanent supervision over the Company's operations, in all fields of its activity, specifically, the Supervisory Board is authorised to act as set out in the Commercial Code and the Company's Articles of Association. The Supervisory Board takes relevant steps required to regularly obtain exhaustive information from the Management Board about all the material issues relating to of PKN ORLEN's operations and the risk related to the business operations and risk management methods applied.

Pursuant to the Articles of Association, the Supervisory Board is also authorised to:
– appoint and recall the President, Vice-Presidents and other members of the Management Board (except for one member of the Management Board appointed and recalled by the Supervisory Board at the request of the State Treasury until the State Treasury sells the last Company share),
– represent the Company in contracts with the Management Board, including the terms of their employment contracts,
– suspend the activities of individual or all members of the Management Board for important reasons as well as delegating a member or members of the Supervisory Board to temporarily perform the duties of those members of the Management Board who are unable to perform their duties,
– approve the Management Board Regulations,
– appoint an entity authorised to audit the financial statements of the Company and the consolidated financial statements of the ORLEN Capital Group in accordance with the Accounting Act,
– assess the financial statement in terms of its accuracy both in terms of its compliance with the accounting books and documents, the factual status, assess the Management Board's report on the Company's business operations, as well as the Management Board motions on the allocation of profit and coverage of loss, and submit to the General Meeting of Shareholders an annual written report on the results of the above assessments,
– assess the financial statement of the ORLEN Capital Group and the Management Board's report on the business operations of the ORLEN Group and submit the annual written report on the results of such assessment,
– issue opinions on any matter submitted by the Management Board to be presented either to Ordinary or Extraordinary General Meeting of Shareholders,

– grant consent to the members of the Management Board to take positions in supervisory or management authorities of other entities and to collect remuneration for such activities,
– grant consent to implement investment project and to incur the related liabilities in case the expenses or charges due to such activity exceed the equivalent of one half of the Company's share capital,
– set the scope, accuracy and time for submission by the Management Board of its annual and long-term financial plans and plans for the Company's development strategy,
– approve the Company's development strategy and long-term financial plans,
– issue opinions on the annual financial plans,
– give consent, upon the Management Board's motion, to sell real estate, perpetual usufruct or participation in real estate where the net book value does not exceed one twentieth of the share capital,
– give consent, upon the Management Board's motion, to purchase real estate, perpetual usufruct or participation in real estate where the net acquisition price exceeds one fortieth of the share capital,
– give consent to purchase the Company's own shares to prevent serious damage referred to in Article 362 § 1 item 1 of the Commercial Code, posing a direct threat to the Company,
– appoint the acting President of the Management Board, referred to in § 9 sec. 3 item 3, in the event the President is suspended from duty or his/her mandate expires before the end of the term of office.

The Articles of Association also stipulate that the consent of PKN ORLEN's Supervisory Board is required to:
– set up a branch abroad,
– sell or encumber fixed assets whose net book value exceed one twentieth of the asset value stated in the recent financial statements approved by the General Meeting of Shareholders, as a result of one or several related legal actions being taken,
– dispose of or encumber, in any way whatsoever, shares or stakes in the following companies: Naftoport Sp. z o.o., Inowrocławskie Kopalnie Soli S.A. and in the company to be established with a view to transporting liquid fuels through pipelines,
– incur other liabilities exceeding the equivalent of one fifth of the share capital, as a result of one or several related legal actions being taken during the financial year, except for the following:
    - activities performed within the scope of ordinary management activity, including in particular all activities relating to Fuels trading,
    - activities approved by the Supervisory Board in the annual financial plans,
    - activities which need the consent of the Shareholders Meeting in order to be performed,
    - activities performed in connection with the implementation of the investment task, approved by the Supervisory Board in accordance with § 8 sec. 11 item 9 of the Articles of Association, up to the amount not exceeding 110 percent of the amount allocated for this investment task,
    - activities concerning the implementation of the investment task and the related liabilities, if expenditures or charges do not exceed the cap indicated in § 8 sec. 11 item 9 of the Articles of Association,
– carry out capital or tangible investments abroad worth more than one twentieth of the share capital,
– exercise the Company's voting right at general meetings and partners/associates/shareholders meetings of the subsidiaries and other entities, if the value of the shares or stakes held by the Company, at a price the shares were acquired or taken up exceed one fifth of the Company's share capital, as regards merger with another company and Company restructuring, sale and lease of the Company's undertaking and establishing on it the right to use, amendments to the Articles of Incorporation or Articles of Association, execution of the concern contract within the meaning of Article 7 of the Commercial Code and winding up of the Company,
– establish commercial law companies and join existing companies, as well as to make contributions to cover shares in companies, and to sell shares if the Company's capital involvement in a given company so far, or commitment which the Company is about to achieve as a result of buying or acquiring shares, calculated on the basis of the share purchase or acquisition price, exceeds one tenth of the initial capital, excluding the purchase of shares in the regulated market,
– pay interim dividends to the shareholders.

If the Supervisory Board withholds its consent to any of the above activities being taken, the Management Board can address the General Meeting of Shareholders to adopt a resolution to approve the relevant activity.

Additionally, following a request of at least two members, the Supervisory Board is obliged to consider undertaking supervisory actions specified in such request.

Given the best practice standards and in order to enable the shareholders to make a true and fair view of the Company, the Supervisory Board of PKN ORLEN is in charge of the additional duty to submit to the General Meeting of the Company a concise assessment of PKN ORLEN's standing. The assessment is submitted annually, before the date of the Company's General Meeting to allow time for PKN ORLEN shareholders to get acquainted with it.

Committees of PKN ORLEN's Supervisory Board

The Supervisory Board of PKN ORLEN may elect permanent or *ad hoc* committees which act as its collective advisory and opinion making bodies. The following permanent Committees operate within the Supervisory Board of PKN ORLEN: Audit Committee, Strategy & Development Committee, Nomination & Remuneration Committee and Corporate Governance Committee. The said Committees report annually to the Supervisory Board on its activities.

The members of all Committees are appointed by the Supervisory Board from amongst its members and the Committee itself chooses its Chairman. The Committees consist of between 3 to 5 members. At least two members of Audit Committee are independent members and at least one has skills and expertise in the field of accounting or finance.

The Committee meetings are convened by the Committee chairman and, if he/she is either absent or unable to perform his/her duties, by the chairman of the Supervisory Board or another member of the Supervisory Board indicated by the chairman, who invites all the Committee Members to the meeting and notifies all the other Supervisory Board members of the meeting. All the members of the Supervisory Board can participate in the Committee meetings. The Committee chairman can invite to the Committee meetings members of the Management Board, the Company's employees and other persons whose participation in the meeting is expedient to carry out the Committee tasks.

The Committee resolutions are passed with a simple majority of the votes cast. In the event of a tie, the Committee chairman has the casting vote.

Audit Committee

The task of the Audit Committee is to advise the Supervisory Board of PKN ORLEN on the issues related to the proper implementation of budget and financial reporting rules and internal control within the Company and the ORLEN Group, as well as cooperation with the Company's certified auditors. In particular, the tasks of the Committee are: to monitor the work of the Company's certified auditors and submit recommendations to the Supervisory Board as to the selection and fee of the Company's certified auditors, to discuss with the Company's certified auditors, prior to commencement of audit of each annual financial statements, the nature and scope of the audit, and to monitor co-ordination of work between the Company's certified auditors, to review interim and annual financial statements of the Company (consolidated and unconsolidated), with particular focus on:
– any changes of accounting standards, rules and practice,
– main areas of judgement,
– material corrections following from the audit,
– going concern statements,
– compliance with applicable accounting regulations.

Furthermore, the tasks of the Audit Committee include:
– to discuss any problems or objections that may result from the audit of the financial statements,
– to analyse the letters to the Management Board drawn up by the Company's certified auditors, independency and objectivity of their audit and the Management Board's replies,
– to give opinions on annual and long-term financial plans,
– to give opinions on the dividend policy, profit distribution and issue of securities,
– to review the management accounting system,
– to review the internal control system, including control mechanisms in terms of finance, operations, compliance with the provisions of law, risk and management assessment, to review the reports of internal certified auditors employed by the Company and basic findings made by other internal analysts together with the Management Board's replies to such findings, to review the independency of internal auditors and to give opinions on the Management Board's intentions as to employment or dismissal of the head of internal audit,
– to review, on an annual basis, the internal audit program, coordination of the work of internal and external auditors and to analyse the conditions for internal auditors' operation, cooperation with the Company's organisational units in charge of audit and control and to evaluate their work on a periodical basis,
– to consider all other issues relating to the Company's audit raised by the Committee or the Supervisory Board,
– to notify the Supervisory Board of any material issues regarding the operation of the Audit Committee.

The Audit Committee meetings are held at least once per quarter, each time prior to the publication of the financial statements by the Company.

Corporate Governance Committee

The task of the Corporate Governance Committee is to evaluate the implementation of the corporate governance principles, to submit recommendations to the Supervisory Board as to the implementation of the corporate governance principles, issue opinions on normative corporate governance documents, evaluate reports concerning compliance with the corporate governance principles prepared for the Warsaw Stock Exchange, issue opinions on the draft amendments of the Company's corporate documents and to develop such drafts in case of own documents of the Supervisory Board, to monitor the management of the Company in terms of legal and regulatory compliance, including the compliance with the PKN ORLEN's Code of Ethics and the corporate governance principles.

Strategy and Development Committee

The task of the Strategy and Development Committee is to issue opinions and submit recommendations to the Supervisory Board on planned investments and divestments which exert a material impact on the Company's assets. In particular, the Committee assesses the effect of planned and conducted already implemented investments and divestments on the form of the Company's assets, evaluates the activities, contracts, letters of intent and other documents relating to the actions aimed at acquisition, sale, encumbrance or any other disposal of the Company's material assets, issues opinions on any strategic documents which the Management Board submits to the Supervisory Board, issues opinions on the Company's development strategy, including long-term financial plans.

Nomination and Remuneration Committee

The task of the Nomination and Remuneration Committee is to help to attain the strategic goals of the Company by providing the Supervisory Board with opinions and motions on how to shape the management structure, with regard to organisational solutions, remuneration schemes and selection of the staff with the skills required to ensure the Company's success. In particular, the tasks of the Committee include: to initiate and issue opinions on the solutions in the area of Management Board members nomination system, to issue opinions on the solutions proposed by the Management Board in the area of the Company's management system, aimed at ensuring efficiency, integrity and safety of the Company's management, to periodically review and recommend the rules for determining incentive schemes to the Management Board members and top executives, with a view to the Company's interest, to periodically review the remuneration system applicable to Management Board members and managerial staff directly reporting to the Management Board members, including managerial contracts and incentive schemes and to submit to the Supervisory Board the proposals how to shape them in the context of the Company's strategic goal attainment, to submit to the Supervisory Board opinions on the rationale behind performance-driven remuneration,in the context of evaluating the degree to which the Company's specified tasks and goals are met, to assess the Company's human resources management system.

5.7.6 The rules of PKN ORLEN's Management Board operations

The PKN ORLEN Management Board's principal objective is to realise the Company's interest, which is understood as building the value of its assets entrusted by its shareholders, with due respect for the rights and interests of the parties other than the shareholders, involved in the Company operations, especially creditors and employees.

The Management Board of PKN ORLEN ensures transparency and efficiency of the Company's management system, and guarantees that the Company's affairs will be handled in accordance with applicable law and good business practice.

Appointing and recalling PKN ORLEN's Management Board

The Management Board of PKN ORLEN consists of five to nine members, including the President, Vice-Presidents and others members of the Management Board. Members of the Management Board are appointed and recalled by the Supervisory Board. One member of the Management Board is appointed and recalled by the Supervisory Board upon the request of the minister in charge of State Treasury.

The term of office of the Management Board members is a joint term of office, ending on the day when the Annual General Meeting has been held, approving the financial statements for the whole second financial year of such term of office. So determined joint term of office is assumed to commence on 7 June 2008.

The President, Vice-Presidents, and other members of the Management Board may be suspended from duty for significant reasons by the Supervisory Board.

Should the Management Board President be suspended from duty or his/her mandate expires before the end of the term of office, all his/her powers, except for the right to the casting vote referred to in § 9 sec. 5 item 2 of the Articles of Association, are to be executed by the person appointed by the resolution of the Supervisory Board acting as President of the Management Board until the new Management Board President is appointed or the current one is restored to his/her position.

Organisation of PKN ORLEN's Management Board activity

Meetings of the Management Board are held when necessary, however, not less frequently than once every two weeks. Each member of the Management Board may request in writing for a Management Board meeting to be convened or certain issues to be placed on the agenda. The request should contain the proposed agenda and the justification for the request. The meeting should be held within seven days of the request being filed.

The meeting of the Management Board is convened by the President who manages the activity of the Management Board and has to fix the date, venue and the agenda of the meeting. In exceptional cases the meeting of the Management Board may be convened by the Vice-President or two members of the Management Board. The meeting can also be held without being formally convened if all the Management Board members are present and none of them has objected to the meeting being held or any proposed issues being put on the agenda.
Invited Company employees, advisers and other persons can attend the meeting with the consent of the person chairing the meeting of the Management Board.

Meetings of the Management Board are held in the Company's seat in Płock or in the Company's Headquarters in Warsaw. The person convening the meeting may, however, determine another venue for the meeting to be held.

The Management Board adopts resolutions at the meeting. For a resolution to be effective the scheduled meeting has to be notified to all the members of the Management Board and at least one half of the Management Board members have to be present at the meeting. The Management Board resolutions are passed with a simple majority of votes (in the event of a voting deadlock, the President of the Management Board has the casting vote) provided that for resolutions to grant a procuration, unanimity of all members of the Management Board is required. A Management Board member who voted against a resolution that was adopted may communicate its dissenting opinion, however, such communication has to be provided with the reasoning.

Resolutions are adopted in an open vote. A secret ballot may be ordered at request of each member of the Management Board. Resolutions are signed by all members of the Management Board who were present at the Management Board meeting on which the resolution was adopted. The resolution is also signed by the member of the Management Board who filed a dissenting opinion, with a note: "dissenting opinion" or "votum separatum".

Competences of PKN ORLEN's Management Board

The Management Board has to handle all the affairs of PKN ORLEN which are not reserved to be considered by other authorities of the Company under the provisions of the Commercial Code or the Articles of Association. All the members of the Management Board are obliged and authorised to handle the affairs of PKN ORLEN.

All the maters going beyond the ordinary course of business are subject to resolutions of the Management Board, however, the consent of the Management Board is not required to carry out an activity being an integral part of another activity which has already been approved by the Management Board unless the resolution of the Management Board provides otherwise. Activities falling within the scope of the ordinary course of business are activities related to fuels trading within the meaning of the Company's Articles of Association (i.e. crude oil, petroleum products, biocomponents, biofuels and other fuels, including natural gas, industrial gas and fuel gas), and any other activities not specified in the Management Board Regulations. A resolution of the Management Board is required, among others to:

– adopt and amend the Management Board Regulations,
– adopt and amend the Organisational Rules and Regulations of PKN ORLEN,
– adopt motions to be submitted to the Supervisory Board and / or to the General Meeting of Shareholders, in particular, any motions sent to these bodies for their consent to perform certain actions, issue opinions, make an assessment or give an approval, which are required in accordance with the generally applicable law and / or the Company's Articles of Association,
– convene the General Meetings of Shareholders and adopt the proposed agenda of the General Meetings
– approve annual and long-term financial plans as well as the Company's development strategy
– approve investment tasks and corresponding liabilities if the resulting expenditures and encumbrances exceed PLN 10,000,000,
– incur liabilities, manage the property rights and any form of encumbrance on the Company's property where the total value exceeds PLN 20,000,000 (with certain exceptions to that rule)
– dispose and purchase real estate, perpetual usufruct or an interest in real estate and to establish a limited property right,

- dispose of, purchase and encumber stakes, shares or other interest in other entities, including shares admitted to public trading,
- issue the Company's securities,
- approve the annual report on the Company's business operations, the Company's annual, half-yearly and quarterly financial statements, the ORLEN Capital Group's annual, half-yearly and quarterly financial statements,
- adopt and change the Company's employees' remuneration scheme, as well as decisions regarding introduction and fundamentals of the incentive schemes,
- conclude, amend and terminate a collective labour agreement applicable in the Company, and other agreements with trade unions,
- establish the principles of granting and revoking powers of attorney,
- formulate the so-called donation policy of the Company,
- grant a procuration,
- establish the internal segregation of duties among the members of the Management Board,
- set up establishments / offices abroad,
- handle other matters which at least one member of the Management Board requests to be handled in the form of a resolution,
- take decisions on the payment of interim dividends.

The Management Board has to regularly provide the Supervisory Board with exhaustive information on all aspects of PKN ORLEN's business operations and the risks related to such operations as well as the methods of managing such risks. Additionally, the Management Board has to draw up and adopt annual and long-term financial plans and the Company development strategy in the form, to the extent and by the deadlines set by the Supervisory Board. The Management Board of PKN ORLEN has also to draw up and submit to the Supervisory Board the annual financial statements of PKN ORLEN and the annual financial statements of the ORLEN Group for the previous financial year.

5.7.7 Description of the remuneration policy and the rules for its determination

The remuneration for the Supervisory Board Members is determined by the Company's General Meeting.

The remuneration for the Management Board Members is determined by the Supervisory Board. As part of the Supervisory Board, the Nomination & Remuneration Committee operates whose tasks, among others, include:
- to periodically review and recommend, the rules for determining incentive pay to the Management Board members and to the senior management, taking into account the Company's interest,
- to periodically review, the remuneration system applicable to Management Board members and managerial staff directly reporting to the Management Board members, including managerial contracts and incentive systems and to submit to the Supervisory Board the proposals how to shape them in the context of the Company's strategic goal attainment,
- to submit to the Supervisory Board opinions on the reasons underlying the awarded performance-driven remuneration in the context of evaluating the degree to which the Company's specified tasks and goals are met.

The main components of the Management Board Members remuneration system include:
- monthly fixed base pay,
- annual bonus dependent on the accomplishment level of quantitative and qualitative targets,
- severance pay for dismissal from the Management Board Member function,
- compensation for non-competition.

Additional benefits for the Management Board Members:
- Company car,
- Tools and technical appliances necessary to perform the duties of the Management Board Member,
- Reimbursement of business trips costs and costs of representation to the extent and in the amount relevant to the function held,
- Life and endowment insurance agreement,
- Private health insurance for the Management Board Member and his/her closest family.

5.7.8 Rules for awarding bonuses to the key executive personnel

In 2010 the ORLEN Group's key executive personnel was subject to the annual MBO bonus system. The regulations applicable to PKN ORLEN Management Board, executive directors of PKN ORLEN, management boards of the PKN ORLEN Group and other key positions in the Group have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of individual targets set at the beginning of the bonus period by the Supervisory Board for the Management Board Members and by the Management Board Members for the key executive personnel. The targets set are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, based on the rules adopted in the applicable Bonus System

Regulations. The bonus systems are structured in a way so as to promote the cooperation between individual employees in view to achieve the best possible results at PKN ORLEN and ORLEN Group level.

In 2010 new MBO bonus standards were developed and approved for the senior managerial personnel in the ORLEN Group to be in force as of 2011. The main goal for implementation of the changes is to match the bonus system with PKN ORLEN Management Board's goals and to increase top management responsibility for ORLEN Group results.

VI. ADDITIONAL INFORMATION

6.1 Information on related entities – material transactions executed on the terms and conditions other than the arm's length terms and conditions

In 2010, the PKN ORLEN did not note any material transactions executed with the affiliates on the basis other than arm's length.

The information on material transactions executed by PKN ORLEN with related entities is provided in note 35.1 to the Unconsolidated Financial Statements for 2010.

6.2 Information on material proceedings pending before court, arbitration authority or public administrative authority and other risks faced by the parent company or its subsidiaries

The information on pending proceedings is provided in note 39 to the Unconsolidated Financial Statements for 2010.

6.3 Information on material agreements

Specification of material agreements published in regulatory announcements:

- on 11 January 2010, PKN ORLEN executed an annual agreement with Statoil Poland Sp. z o.o., the member of the Statoil ASA group. Under the agreement, PKN ORLEN will be selling gasoline and diesel oil to Statoil Poland from 11 January 2010 to 31 December 2010. The estimated net value of the agreement amounted to approximately PLN 498 million,
- on 26 March 2010, PKN ORLEN executed a spot agreement with Glencore Energy UK Ltd., Great Britain, for the delivery of crude oil to Unipetrol RPA s.r.o. The estimated net value of the agreement amounted to approximately 28 million USD (i.e. approximately PLN 80 million as translated at the average exchange rate announced by the National Bank of Poland for PLN/USD on 26 March 2010),
- on 29 March 2010, PKN ORLEN executed with LAMBOURN Sp. z o.o., with its registered office in Warsaw, an agreement for the sale of crude oil ("Sales Agreement") and the agreement for collecting and maintaining mandatory stock of crude oil. Under the Sales Agreement PKN ORLEN sold to the company LAMBOURN Sp. z o.o. crude oil of the value of approximately USD 280 million (i.e. approximately PLN 800 million). The price of crude oil was set out on the basis of market quotations. Under the Reserves building and maintenance agreement, LAMBOURN Sp z o.o. will provide the service involving the maintenance of the mandatory crude oil reserves on the account of PKN ORLEN, whereas PKN ORLEN will guarantee that the reserves are stored in the present location. The Reserves building and maintenance agreement was executed for the fixed term of one year and can be extended.
- on 31 March 2010, PKN ORLEN executed a spot agreement with Gunvor International B.V. Amsterdam, Geneva Branch for the delivery of crude oil to ORLEN Lietuva. The estimated net value of the agreement amounted to approximately USD 55 million (i.e. approximately PLN 158 million as translated at the average exchange rate announced by the National Bank of Poland for PLN/USD on 31 March 2010),
- on 21 June 2010 PKN ORLEN executed a spot agreement with Gunvor International B.V. Amsterdam, Geneva Branch for the delivery of crude oil to ORLEN Lietuva. The estimated net value of the agreement amounted to approximately USD 53 million (i.e. approximately PLN 172 million translated at the average exchange rate announced by the National Bank of Poland for PLN/USD on 21 June 2010),
- on 19 August 2010 PKN ORLEN executed a spot agreement with Star Oil FZE, United Arab Emirates for the delivery of crude oil to Unipetrol RPA, s.r.o. The estimated net value of the agreement amounted to approximately USD 56 million (i.e. approximately PLN 173 million as translated at the average exchange rate announced by the National Bank of Poland for PLN/USD on 19 August 2010),
- on 2 September 2010, PKN ORLEN executed a spot agreement with Gunvor International B.V. Amsterdam, Geneva Branch for the delivery of crude oil to ORLEN Lietuva. The estimated net value of the agreement amounted to approximately USD 56 million (i.e. approximately PLN 172 million as translated at the average exchange rate announced by the National Bank of Poland for PLN/USD on 2 September 2010),
- on 26 November 2010, PKN ORLEN executed a spot agreement with Total Oil Trading S.A., Geneva, Switzerland for the delivery of crude oil to ORLEN Lietuva. The estimated net value of the agreement amounted to approximately USD 61 million (i.e. approximately PLN 185 million as translated at the average exchange rate announced by the National Bank of Poland for PLN/USD on 26 November 2010),
- on 6 December 2010, PKN ORLEN and the Ministry of Environmental Protection signed a cooperation agreement to the extent of exploration and extraction of hydrocarbons in Ukraine. The agreement provides also for the possibility to launch the work under new concessions as well as joint development of the hydrocarbon deposits already prospected by the Ukrainian partners. The cooperation between PKN ORLEN and the Ukrainian party assumes the implementation of common exploration and extraction projects for crude oil and gas, in the area of conventional and shale gas type deposits. Any decision on capital involvement will be preceded by a stage of comprehensive analysis and expert opinion performed by the partners to the agreement,

- on 7 December 2010, PKN ORLEN executed a spot agreement with Gunvor International B.V. Amsterdam, Geneva Branch for the delivery of crude oil to ORLEN Lietuva. The estimated net value of the agreement amounted to approximately USD 60 million (i.e. approximately PLN 181 million as translated at the average exchange rate announced by the National Bank of Poland for PLN/USD on 7 December 2010),
- on 23 December 2010, PKN ORLEN executed a spot agreement with Glencore Energy UK Ltd, Great Britain, for the delivery of crude oil to Unipetrol RPA, s.r.o. The estimated net value of the agreement amounted to approximately USD 39 million (i.e. approximately PLN 119 million as translated at the average exchange rate announced by the National Bank of Poland for PLN/USD on 23 December 2010),
- on 23 December 2010, PKN ORLEN executed with Maury Sp. with o.o., with its registered office in Warsaw, an agreement for the sale of crude oil ("Sales Agreement ") and the agreement for collecting and maintaining mandatory stock of crude oil ("Stock Collection and Maintenance Agreement"). Under the Sales Agreement, PKN ORLEN sold to the company Maury Sp., z o.o. crude oil of the value of approximately USD 300 million (i.e. approximately PLN 910 million as translated at the average exchange rate announced by the National Bank of Poland for USD/PLN on 23 December 2010). The price of crude oil was set out on the basis of market listing. Under the Reserves building and maintenance agreement, Maury Sp. z.o.o. will provide the service involving the maintenance of the mandatory crude oil reserves on the account of PKN ORLEN, whereas PKN ORLEN will guarantee that the reserves are stored in the present location. The Reserves building and maintenance agreement was executed for the fixed term of one year and can be extended,
- on 30 December 2010, PKN ORLEN signed with the State Treasury Ministry two agreements for the purchase of a stake of shares representing 9.19% of the share capital of the company Rafineria Trzebinia S.A. and 5.56% of the share capital of the company Anwil S.A. As a result of the execution of these transactions, the PKN ORLEN's share in the share capital of Rafineria Trzebinia S.A. and Anwil S.A. increased by 86.35% and 90.35%, respectively,
- on 4 January 2011, PKN ORLEN executed an annual agreement with Statoil Poland Sp. z o.o., the Statoil group member. Under the agreement PKN ORLEN will be selling petrol, diesel oil and heating diesel oil to the company Statoil Poland from 1 January 2011 to 31 December 2011. The estimated net value of the agreement amounted to PLN 783 million,
- on 4 January 2011, PKN ORLEN executed an annual agreement with Lukoil Polska Sp. z o.o., the Lukoil group member. Under the agreement PKN ORLEN will be selling gasoline and diesel oil to Lukoil Polska from 1 January 2011 to 31 December 2011. The estimated net value of the agreement amounted to PLN 1,601 million,
- on 10 January 2011, PKN ORLEN executed a spot agreement with Shell International Trading and Shipping Company Limited, Great Britain, for the delivery of crude oil to ORLEN Lietuva. The estimated net value of the agreement amounted to approximately USD 67 million (i.e. approximately PLN 203 million as translated at the average exchange rate announced by the National Bank of Poland for PLN/USD on 10 January 2011),
- on 13 January 2011, PKN ORLEN executed an annual agreement with BP Europa S.E., the BP group member. Under the agreement PKN ORLEN will be selling gasoline and diesel oil to the company BP Europa from 1 January 2011 to 31 December 2011. The estimated net value of the agreement amounted to PLN 5,482 million,
- on 7 February 2011, PKN ORLEN executed a spot agreement with Vitol S.A. for the delivery of crude oil to ORLEN Lietuva. The estimated net value of the agreement amounted to approximately USD 68 million (i.e. approximately PLN 194 million as translated at the average exchange rate announced by the National Bank of Poland for PLN/USD on 7 February 2011),
- on 23 February 2011, PKN ORLEN executed an agreement with SK EUROCHEM, with its registered office in Włocławek for the delivery of teraphtalic acid (PTA) to SK EUROCHEM. The agreement was executed for non-fixed term. Agreement of 23 February 2011 supersedes the agreement of 31 May 2006 executed with SK EUROCHEM for the sale of teraphtalic acid (PTA) and, concurrently, it is the termination of that agreement. The estimated value of the subject matter of the agreement during the first five years amounts approximately to PLN 1.802 million,
- on 21 March 2011, PKN ORLEN it signed a spot agreement with Gunvor International B.V. Amsterdam, Geneva Branch, for crude oil deliveries to AB ORLEN Lietuva. The estimated net value of the agreement amounts to approximately USD 79 million (i.e. approximately PLN 227 million, based on the average PLN/USD exchange rate as of 21 March 2011, as stated by the National Bank of Poland).

6.4 Non-competition agreements and agreements on termination of contract due to removal from the position held executed with the management staff

In accordance with the agreements PKN ORLEN Management Board Members are obliged for 6 or 12 months, starting from the day when the agreement is terminated or expires, to refrain from any competitive activity. During this period, they are authorized to receive remuneration six or twelve times their monthly base pay, paid in equal monthly instalments. Moreover, the agreements provide for a remuneration to be paid if the contract is terminated due to a removal from the position held. In such case the remuneration amounts to six or twelve times the monthly base salary.

6.5 Remuneration paid to the management and supervisory authorities in PKN ORLEN

6.5.1 Remuneration paid to Management Board Members of the Company fulfilling their functions in 2010 and in previous years (in PLN thousands)

	2010	2009
Remuneration paid to Managment Board Members of the Company, including:		
- remuneration and other benefits	**6 040**	**6 031**
Krawiec Dariusz	1 524	1 524
Jędrzejczyk Sławomir	1 404	1 404
Kotlarek Wojciech	979	977
Pater Krystian	924	924
Serafin Marek	1 209	1 202
- bonuses for previous year	**5 454**	**2 873** 1)
Krawiec Dariusz	1 440	729
Jędrzejczyk Sławomir	1 320	670
Kotlarek Wojciech	756	295
Pater Krystian	798	636
Serafin Marek	1 140	543
Remuneration paid to Management Board Members of the Company fulfilling their functions in previous years, including:		
- remuneration and other benefits	**646**	**1 560** 2)
Heydel Wojciech	-	960 3)
Kownacki Piotr	-	600 3)
Wiśniewski Janusz	646 4)	-
- bonuses for previous year	**-**	**1 833** 2)
Filipowicz Cezary	-	199
Formela Dariusz	-	199
Heydel Wojciech	-	943
Maj Waldemar	-	247
Szwedowski Krzysztof	-	245
Total:	**12 140**	**12 297**

1) for the period of fulfilling the function from 7 June 2008 to 31 December 2008
2) for the period of fulfilling the function from 1 January 2008 to 6 June 2008
3) remuneration and other benefits including compensation for non-competition
4) payment due to settlement concerning remuneration for 2005

Bonuses potentially due to Management Board Members for current year to be paid in another year (in PLN thousands).

	2010	2009
Krawiec Dariusz	1 440	1 440
Jędrzejczyk Sławomir	1 320	1 320
Kotlarek Wojciech	756	756
Pater Krystian	798	798
Serafin Marek	1 140	1 140
Total:	**5 454**	**5 454**

Bonuses were calculated assuming the fulfillment of all targets by Management Board Members.

6.5.2 Remuneration of other key executive personnel of the Company

	2010	2009
Remuneration and other benefits of other key executive personnel of the Company	**31 522**	**32 584**

Rules for granting bonuses to the key executive personnel (including Management Board Members)

In 2010, the ORLEN Group provided an annual MBO (Management By Objectives) bonus system to the key executive personnel. The regulations applicable to PKN ORLEN Management Board, executive directors of PKN ORLEN and other key positions have certain basic common features. The persons subject to the above mentioned systems are awarded for the accomplishment of specific goals set in the beginning of the bonus period by the Supervisory Board for the Management Board Members and, by the Management Board Members for the key executive personnel members. The Bonus Systems are structured in such a way so as to promote the cooperation between individual employees in view to achieve the best possible result for the PKN ORLEN. The goals so set are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations.

In 2010, new bonus regulations for executive directors of PKN ORLEN came into force. Implemented changes increased flexibility and motivative capability of the system as well as simplified its functionality.

Additionally, new MBO bonus standards were developed for executive directors reporting directly to Management Board, to enter into force as of 2011. The basic assumption for implementing the changes is to make the bonus system matching the PKN ORLEN Management Board's goals and to enhance the highest management's liability for the results generated by the ORLEN Group.

6.5.3 Remuneration to the Company's Management and Supervisory Boards Members for holding functions in the Supervisory Board of the Company, Management or Supervisory Boards of subsidiaries, companies under joint control or associated companies (in PLN thousands)

Members of PKN ORLEN Management Board who in 2010 and 2009 performed the functions on Supervisory and Management Boards of the subsidiaries, companies under joint control and associated companies belonging to the PKN ORLEN Group did not collect any remuneration in this respect, except Unipetrol a.s., where the remuneration due for holding the function was transferred to the ORLEN's Foundation Dar Serca (Gift of the Heart).Three members of PKN ORLEN Management Board performed the functions on the Management Boards in the companies: ORLEN Lietuva and Unipetrol a.s.

	2010	2009
Remuneration of the Members of the Company's Supervisory Board, including:		
Borowiec Grzegorz	137	131
Gabor Artur [1)]	70	-
Karabuła Marek	137	131
Kołach Krzysztof	137	131
Mataczyński Maciej	176	169
Michniewicz Grzegorz	8	121
Pawłowicz Leszek [1)]	71	-
Rocławski Jarosław [2)]	66	131
Sarota Angelina	137	131
Wielowieyski Piotr	137	132
Zieliński Janusz	137	133
Total:	**1 213**	**1 210**

1) for the period of fulfilling the function from 25 June 2010
2) for the period of fulfilling the function to 25 June 2010

6.6 Number of shares in PKN ORLEN and number of shares in other ORLEN Group members held by the persons fulfilling management or supervisory functions in PKN ORLEN

Grzegorz Borowiec, Member of the Supervisory Board, held 100 shares in PKN ORLEN.
Janusz Zieliński, Member of the Supervisory Board, held 407 shares in PKN ORLEN.
Artur Gabor, Member of the Supervisory Board, held 3200 shares in PKN ORLEN.

6.7 Information on the agreement with the entity authorised to audit financial statements

The information on when the PKN ORLEN executed an agreement with an entity authorized to audit financial statements and the fee due to the entity authorized to audit financial statements were provided in Note 37 to the Unconsolidated Financial Statements for 2010.

6.8 Employment

The employment structure in the PKN ORLEN was described in Note 38 to the Unconsolidated Financial Statements for 2010.

6.9 Information on the employee share scheme monitoring system

In 2010 no employee share scheme was implemented at the ORLEN Group.

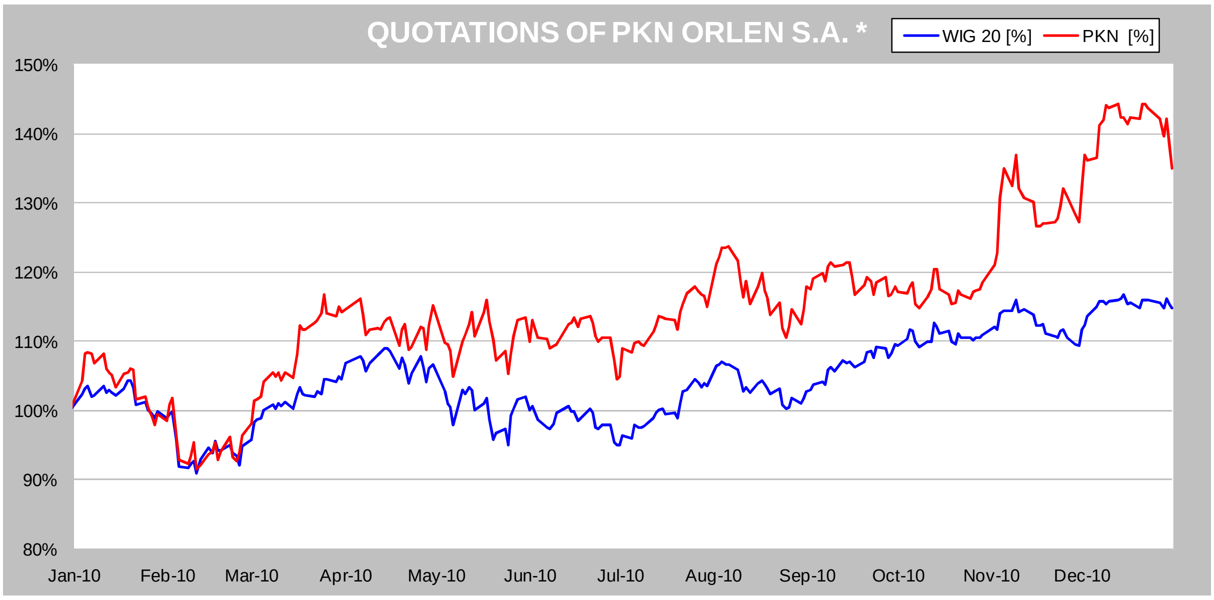
6.10 Shareholding of PKN ORLEN

The shareholding structure of PKN ORLEN is described in point 5.3.

6.11 PKN ORLEN on the capital market

The shares of PKN ORLEN are listed on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A., and on the London Stock Exchange, where the traded unit is 1 GDR, which represents 2 PKN ORLEN shares. GDRs are also traded in the United States on the OTC (Over The Counter) market in the form of American Deposit Receipts (ADRs). The depository for PKN ORLEN deposit receipts is the Bank of New York Mellon.
PKN ORLEN shares are listed on the main market of the Warsaw Stock Exchange in the continuous listing system and are comprised by WIG, WIG20 and WIG-fuels – the industry index. Since 19 November 2009 the PKN ORLEN shares have been included in the index composition of the companies engaged in the social business responsibility – Respect Index. In 2010, during the index update, PKN ORLEN maintained its position amongst the elite of Polish firms listed in Respect Index. The share capital of PKN ORLEN is divided into 427,709,061 ordinary bearer shares of the nominal value of PLN 1.25 each. 309,998,865 shares representing 72.48% of the Company's share capital are transacted on the stock exchange.

The year 2010 saw a sustainable growth of PKN ORLEN listings on the Warsaw Stock Exchange. In this period PKN ORLEN shares closing rates raised by 34.9% up to PLN 45.80 per share as at 31 December 2010, which accounts for the Company's market capitalization of PLN 19.6 billion. In this period the Warsaw Stock Exchange Index WIG20 increased by 14.9%. During the last year, on the continuous listing market 298,525,920 shares, representing 70% of the issued stock, changed the owner.



*) percentage change in PKN ORLEN and WIG 20 quotations in comparison to quotations from 31 December 2009

Management Board Report on the Operations of

the Polski Koncern Naftowy ORLEN Spółka Akcyjna

for 2010

is submitted by the Management Board composed of:

…………………….
Dariusz Krawiec
President of the Board

……………………….
Sławomir Jędrzejczyk
Vice-President of the Board

…………………….
Wojciech Kotlarek
Member of the Board

………………….
Krystian Pater
Member of the Board

…………………….
Marek Serafin
Member of the Board

Warsaw, 29 March 2011